Canada. Royal commission on banking and finance.
Hearings, v. 4-7. Briefs. v. 4A-5A. 1962.

1964

7383

Royal Commission on Banking and Finance

Hearings held at Vancouver

Vol. 4

Date. March 16, 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Vancouver,
B.C., on Friday,
March 16, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. T. [illegible] M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. [illegible], O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Nethercut & Young
Toronto, Ontario

Vancouver, B.C.
March 16, 1962.

ROYAL COMMISSION ON BANKING
AND FINANCE

I N D E X

Page No.

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Vancouver,
B.C., on Friday,
March 16,1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Vancouver, B.C.
Friday, March 16, 1962

SUBMISSION OF HELEN G. MOORE

--- Upon commencing at 9.45 A.M.

Appearances:

Helen G. Moore

A.M. Moore

THE CHAIRMAN: Call the meeting to order. Mrs. Moore, I believe you have a submission to make. It is not necessary for you to stand up if you prefer to sit down.

MRS. MOORE: I think I prefer to sit down if I may.

THE CHAIRMAN: I would also suggest that in order to be heard -- some members of the audience now are in the back behind you and so I think if you would keep that in mind I think it would be welcomed.

MRS. MOORE: Thank you, sir. I wanted to just say a word at the outset as to why I submitted a brief.

Like all of my generation we grew up during the depression. I grew up on the prairies in Edmonton and when I went on to university I decided to go into economics because I wanted to

be sure how this economic system of ours worked so that no one else would ever have to go through a depression. At least I was going to contribute my bit of knowledge to the grand pile we might accumulate.

During the war years an observer from Mars I believe would have been astounded that an economy which seemed to be flat on its back could rush into a war with all its attendant tremendous expenses and do a wonderful job. At the end of the war years I was at the University of Toronto, I was again there to study economics because that was the centre of banking and finance and we had the Green Book Proposals in case the depression followed the war.

We rushed on from what we thought was going to be a very difficult time, the reconversion, into an era of growth.

Like a great number of people in this economy of ours I thought it is strange when you look at the figures in the current year that 500,000 people are unemployed and of these 265,000 are married men which means a minimum of 800,000 people, that is the City of Vancouver's size, and this means an awful lot of hardship. So our economy is not working as well as it could be because in 1947, 1948 and 1949 we were down to 2 per cent unemployment.

Over the arched door of Victoria College at the University of Toronto is:"Seek the truth and the truth shall make you free", and I feel this is very much so when in the economic realm we can be free from the fear of want. Man cannot live by bread alone but he cannot live without it

and I think we can be sure of this that if mankind can hurl a man around the world in a matter of minutes, mankind certainly can make a small contribution to make sure that Canada is a little more prosperous than it is at the present time.

I know it is often said that Canadians are reluctant to say anything when they have anything to say. I am not sure I have much to say but I will contribute whatever I can to the pile of growing information and as a matter of fact I think a lot of my friends who are in economics, and my husband too, are in that position because of our concern for people.

Mr. Chairman, I take it that you have read the brief and unless you want me to go over it or to summarize it in any way I would be quite happy to go ahead with questions and discussions. I would suggest that on Questions 1 and 2 either Mr. Moore, whom I think you have met, or myself will be happy to answer them. Question number 3, I would direct questions to Mr. Moore but on questions numbered 4 and 5 I would undertake the handle them myself. This is a sort of division of labour we have thought out between us.

Would you like me to talk about the points or would you just prefer to ask questions?

THE CHAIRMAN: We have all read the brief with care and I think perhaps it would be appropriate to put questions if that is satisfactory to you.

MRS. MOORE: Yes, that is fine.

COMMISSIONER LEMAN: Mr. Chairman, for the benefit of the record perhaps Mrs. Moore could read these five main points.

THE CHAIRMAN: Yes, if you would read the

five main points for the report.

THE SECRETARY: The brief will be in the record.

THE CHAIRMAN: So that is not necessary. Point number 1 -- questions?

COMMISSIONER GIBSON: Mr. Chairnan, I take it Mr. Moore is going to answer questions with regard to Points 1 and 2?

MRS. MOORE: No, Point 3 particularly. Either one of us will answer questions on 1 and 2.

COMMISSIONER GIBSON: With regard to Point 1, Mrs. Moore, there is a chart attached as well?

MRS. MOORE: It should have been actually a semi-log to show a difference in the rates.

COMMISSIONER GIBSON: This is one of the points I want to get at because this is a subject of very great interest, how rates are different in some different periods. If you take the figures from the beginning of the chart to the end of the chart in a rough way the proportionate increase has been about the same, at least they are both up about four times.

MRS. MOORE: But the line G.N.P. has crossed Money Supply, sir.

COMMISSIONER GIBSON: Yes it did and the scale is quite different. The point that is made in the first part is, I take it, that the money supply has been adequate in relation to the G.N.P. I do not want to suggest that it has or has not but I do not think that the material here demonstrates that.

MRS. MOORE: Actually, from a semi-log scale the fluctuation is from the G.N.P. being about

twice the money supply to being about four times the money supply.

COMMISSIONER GIBSON: But what we are concerned with here, I take it, is the proportionate rate of increase of the money supply and the G.N.P.?

MRS. MOORE: Yes, and the fact that they have not gone together, that at certain stages money supply has been held constant while G.N.P. has increased, the rates therefore being curtailed in expansion in two very notable periods. This is why I put it on this type of a paper but in 1955, 1956 and 1957 and then again in 1958, 1959 it actually decreased slightly so that at this point I do feel that if it had continued to increase instead of being pulled back in, as here, we would not have had that deep drop we have had in the last but one recession. This was apparently due to an over tight money supply being curtailed.

COMMISSIONER GIBSON: In other words you are presenting this chart to indicate short-term changes, not long-term?

MRS. MOORE: Yes.

COMMISSIONER GIBSON: Because the other point, of course, that arises in these comparisons is the fact that a comparison of this kind does not really prove anything unless you look at the other factors in the picture. We know that in this period prices have gone up a lot.

MRS. MOORE: That is right.

COMMISSIONER GIBSON: And this is what you might call circumstantial evidence that the money supply has been at least adequate over the long period?

MRS. MOORE: That is right.

price the energy, really to [illegible] about [illegible]
the [illegible] supply.

CONGRESSMAN GIBBONS: But what [illegible] are
concerned with [illegible] I think it, is the projections
[illegible] of [illegible] of the energy [illegible] [illegible]

MRS. MOORE: [illegible] [illegible]

have [illegible] your [illegible] [illegible]
energy [illegible] [illegible] to [illegible] [illegible]
[illegible] [illegible], [illegible] [illegible]
[illegible] [illegible] the very [illegible]
why I [illegible] [illegible] type of [illegible] [illegible]
1956 and 1957 and then again in 1968, 1969 [illegible]
actually [illegible] slightly [illegible] of the [illegible]
[illegible] in [illegible] and so [illegible]
of being [illegible] [illegible]
and [illegible] drop we have had in the [illegible]
recession. This [illegible] due to [illegible]
energy supply being curtailed.

you are presenting this chart to indicate short-
term changes, not long-term?

MRS. MOORE: Yes.

CONGRESSMAN GIBBONS: Because the other
point, of course, that enters into it [illegible]
is the [illegible] compilation [illegible]
[illegible], unless you look at the [illegible]
[illegible] We know [illegible] in [illegible]
[illegible]

MRS. MOORE: That is right.

CONGRESSMAN GIBBONS: [illegible]
[illegible] [illegible]
[illegible]
[illegible]

MRS. MOORE: That is right.

COMMISSIONER GIBSON: I take it your main emphasis is on short periods in this picture and not the long one.

MRS. MOORE: Well, on both because it has changed in proportion. Think of what happened during the 1920's when the gold supply had not increased as fast as what was considered the over all rate of growth of the country could have increased and with the advantage of a money market that does not even happen. Then I looked at what had happened with managed money and said: Have we in fact kept pace or have we not?

COMMISSIONER GIBSON: Well, this chart shows that we have had a rate of increase in money supply on an annual basis of much more than 3 per cent over the period. I cannot figure it out exactly but it looks like 6 or 7 per cent.

MRS. MOORE: This was the principle of whether it had grown as fast as the potential of the economy or whether it had held it back.

MR. MOORE: I think her chart is at least suggestive and it would be accurate in the main, if you like, but it seems to me the substance of the point she should be making is the final paragraph on the first point, namely, that we support the contentions that a managed supply can rectify shortages but submit that all the leading theories of interest rate determination lead to the same conclusion, that the present restricted money supply and consequent high rates of interest are a drag on the economy.

COMMISSIONER MACKINTOSH: How broad is "present"? Do you mean this week?

MRS. MOORE: Not this week anyway.

[illegible]: I [illegible] a short period in [illegible]

changed in proportion. Think of what happened during the 1920's when the gold supply had not increased as fast as what was considered the over-all rate of growth of the country could have increased and when the [illegible] [illegible] even happen. What [illegible] would have happened when changed money and [illegible] [illegible] or have we not?

[illegible] that we have had a rate of increase in money supply on an annual basis of much more than 3 [illegible]

[illegible] exactly but it looks like 6 or 7 per cent.

MRS. MOORE: This was the principle of whether it has grown as fast as the potential of the economy or whether it had held it back.

MR. MOORE: I think her chart is [illegible] [illegible] suggestive and it could be accepted in the rate, if you like, but it seems to [illegible] of the point we should be making in the third paragraph on the first point, namely, that we support the contentions that a moderately [illegible] can [illegible] shortage, but doubt that all the [illegible] theories of interest rate [illegible] lead to the [illegible] conclusion, that [illegible] money supply and [illegible] high [illegible] of interest [illegible] drag on the economy.

COMMISSIONER MACKINTOSH: How [illegible]

MR. MOORE: I think it would be the period 1957 onward.

COMMISSIONER GIBSON: This leads on to the other question, of course, of a relation between the supply and interest rates. Is it possible that interest rates have not responded to the money supply in a way that might have been expected because you see it had had substantial increases in the money supply but you still have relatively high interest rates. Have you commented on that?

MR. MOORE: It is one of the distressing things, actually. I do not think any of the major theories of interest rate determination have an appeal in regard to the 1961 experience of a large increase in quantity of money coming from small response in terms of the long-term interest rate. They do seem to be all agreed about the direction of the effect in any event.

COMMISSIONER BROWN: May I ask a question there and that is: To what extent in the consideration of money supply do you make allowances for the increased turnover of money through the tremendous increase in banking facilities in Canada in the past few years, checking accounts?

MRS. MOORE: This is something I have thought of. One would be surprised to see that it should not be a factor because cheques mean a much greater velocity but I am not sure we can measure this sort of thing or that the consensus that velocity in this inflation is very, very high becomes a significant factor. It certainly did in the German situation where the value of the money fell completely apart.

COMMISSIONER GIBSON: If it has a counter-

acting effect on this --

MRS. MOORE: It is not included in the graph, no.

MR. MOORE: Well, the graph on the money supply also includes the ideal balance in savings accounts and we do not have a figure for it now so it is a defect which cannot be corrected.

COMMISSIONER GIBSON: I would also like to ask you to comment on another aspect of this and that is that up until a few years ago bank loans were less than current deposits. Now they are higher than current deposits.

MR. MOORE: This is really what you would expect over the long period, that with the banks emerging from the war and the development of service compared to their pre-war practices. One would expect from the business expansion that the percentage of their assets in the form of loans to business would rise.

COMMISSIONER GIBSON: This is at a historically high figure relative to the current time?

MR. MOORE: Even if you were to take the velocity of money into account you might end up with a set money supply depending on your measure with velocity offsetting, bringing control of the relative change in quantity of money at the time. But if you are thinking about the level of interest rates which you thought was desirable then you would surely still have to have regard to the quantity of money, the stock of money. If you gave any weight at all to the critical preference theory and you want a larger stock of money and try to keep interest rates down and this is the

Well, the graph in the money supply also includes the ... deposits in savings accounts and we do not have a figure on it now so it is a defect which cannot be corrected.

COMMISSIONER GIBSON: I would also like to ask you to comment on another aspect of this and that is that up until a few years ago bank loans were less than current deposits. Now they are higher than current deposits.

MR. MOORE: This is really what you would expect over the long period, that is, that the banks emerging from the war and the Depression were ... not so their present position. One would expect from the ... expansion ... of loans ... [illegible]

COMMISSIONER GIBSON: Isn't this a historically high figure relative to the current ...

MR. MOORE: Even if you ... the velocity of money into account you ... up ... money supply ... with velocity ... relative ... of money at the time. But if you are thinking about the level of interest rates ... the quantity of money, the price of money ... money ...

thought incorporated in the first point.

COMMISSIONER LEMAN: However, you feel that at the present time perhaps of relatively high interest rates and what you term here as the restricted money supply that would now exist today, which is arguable, in what sense do you visualize that this was now a drag on the economy -- in the prevention of more capital investment or in the prevention of the demand for durables or in what way is it dragging the economy? What is not being done principally now, do you feel, that would be done if we had had a slightly lower interest rate?

MRS. MOORE: Well, it depends on the height because this again is a factor of inducement. Your impetus of expansion is the profit motive and the higher the interest rate the higher the profit and the higher whatever the motive, the margin is those who make the decisions in business would need to be so that I would think today the best corporate figure on the need would be the best figure if we had the interest rate lower.

MR. MOORE: Might I speak to that. I gather that among the few things in which there is some consensus in this field of monetary policy and the interest rate is that the effect of lowering the interest rates (a) has allowed looking at and (b) has meant a section for investment projects which uses a great deal of borrowed capital. This is, of course, what your ordinary reasoning would lead you to believe; that is, buildings, housing and such things, and utilities and therefore the lag is long, and that we ought to bring in some of our earlier thinking on investment theory. One used to talk about a project of investment

meaning adding to capacity of existing types, more capacity of manufacturing, when ther [illegible] already adequate stock, and illustration of th deepening of investment through a recessional of period as rather larger quantities of capital are used -- and this is hydro versus thermal. So, it seems odd to us that the Peace and Columbia are being calculated on interest rates of 5½ per cent or 6 per cent when in a period of under-utilization of all our resources one would have thought that 4½ per cent would be much more appropriate, in which event I suggest that the calculations would be tipped in favour of capital intensive rather than thermal, and would have happened if the Burrard had been calculated at 4½ per cent. Then, we have to have regard for the return on low interest rates as well as the simply lower rates of interst compared to a return of the investment -- especially by the price effect. Dr. Mackintosh asked about what was the "present": That was why the period was most appropriate, and we said 1957 forward. A long period of satisfactory growth of the economy, and by the income effect of the lower interest rate, will enable municipalities to spend more out of given fixed income simply because their service costs are lower.

THE CHAIRMAN: You do not think they are spending as much as they could at the present time?

MR. MOORE: This is a value judgment as to the reluctance of the municipalities to spend the money.

THE CHAIRMAN: The first proposition is, as I take it, if interest rates are sufficiently

[illegible] of [illegible] cutting, [illegible]

[illegible] book, [illegible]

deepening [illegible] recession [illegible]

[illegible] larger quantities of [illegible]

used -- [illegible] virtue [illegible] real. [illegible]

[illegible] add to [illegible] Keyser [illegible] Colm [illegible]

[illegible] being [illegible] founded on [illegible] rates of [illegible]

cent or 6 per cent when in a period of under-

utilization of all our resources [illegible]

thought that 2½ per cent would be much more

appropriate, in which [illegible] I [illegible] that the

calculations would be [illegible] in favor of capital

intensive rather than [illegible], and would have

happened if the Bureau had been [illegible]

2½ per cent. Then, we have to have [illegible] for the

[illegible] low interest rates as well as [illegible]

lower rates of interest compared to [illegible] of the

Government -- especially by the [illegible]. Dr.

Keyserling [illegible] about [illegible]

that was why the [illegible] most [illegible]

we had 1957 [illegible]. A long period [illegible]

growth of the economy, and by the lowered ability

of the lower income [illegible], which [illegible]

to spend more out of given fixed income simply

because their services [illegible].

THE CHAIRMAN: You do not [illegible] the

[illegible] depending [illegible] much as they [illegible] at [illegible] per cent

[illegible]?

DR. [illegible]: This [illegible] what [illegible]

as to the reluctance of the [illegible] to [illegible]

reduced that it will necessarily follow that there will be greater investment in plant?

MR. MOORE: Over a period of time and with considerable lag in the flow of investment expenditure.

THE CHAIRMAN: To follow that up and connect it with the quantity of money available, your proposition is that the money supply should be increased to the point where interest rates will be reduced to the desired point?

MRS. MOORE: That is right.

THE CHAIRMAN: And there should be no limit to the increase of the money supply up to that point?

MRS.MOORE: Yes.

THE CHAIRMAN: Go on increasing until the interest rates are forced to the desired level?

MR. MOORE: That is right.

THE CHAIRMAN: That is your whole proposition?

MRS. MOORE: Yes, and I am recognizing too there is the time lag into it, so that you get the effect of an increase in money supply some time later than the actual increase of the quantity of money. You might end up increasing it more than you had need to.

THE CHAIRMAN: On the other hand, isn't it so that during the depression the United States administration increased the money supply very greatly at one point but it had no effect?

MRS. MOORE: This is what I tell my students in economics, that easy money is a necessary condition but not a sufficient condition, and we must not confuse the two. I don't think money supply alone is a

sufficient condition. I think businessmen have to see the opportunity of making gains, and perhaps during the depression they did not see that opportunity. There were factors in the situation, but I don't think this was true of the 1957 period and since then. I don't think there has been this, shall we say, psychology in the thinking of the business leaders.

THE CHAIRMAN: There is also another factor on interest rates -- and interest rates are 5 per cent -- to a business which pays income tax, the net cost to the business is only about half that?

MR. MOORE: The prospective rate of profit is also cut by the income tax, so it should be equal and opposite. If you are reducing the cost of borrowed capital by 50 per cent, so also reducing the return by 50 per cent should offset it.

COMMISSIONER LEMAN: I think what we are referring to indirectly now, and we might as well do it directly, is that there is an argument by a lot of people that business is rather insensitive to changes in interest rates for capital projects within certain reasonable limits. I would gather from your argument you believe it is quite responsive -- in the long run you do feel that?

MRS. MOORE: I think in those areas which are highly capital intensive. In a situation where labour costs are the big factor, then a difference of 5 per cent or 6 per cent in interest rate, you would not expect it to be the determining factor.

MR. MOORE: Especially when they are not using borrowed money.

MRS. MOORE: Yes, if it is something which they have built up and allowed for expansion.

sufficient condition. I think businessmen have to see the opportunity of making gains, and [illegible] during the depression they did not see that opportunity. There were factors in the situation, but I don't think this was true of the 1937 [illegible] and since then. I don't think there has been this, shall we say, psychology in the thinking of the business leaders.

THE CHAIRMAN: There is also another factor on interest rates -- an interest rate of 5 per cent -- to a business which pays income tax, the net cost to the business is only about half that [illegible]

[illegible] is also cut by the income tax, so it should be [illegible] and opposite. If you are reducing the cost of borrowed capital by 50 per cent, you are reducing the [illegible] by 50 per cent [illegible] off to it.

COMMISSIONER [illegible]: I think that [illegible] are trying to indirectly now, and we might [illegible] well do it directly, in that there is an argument by a lot of people that business is rather insensitive to changes in interest rates for capital projects within certain reasonable limits. I would gather from your argument you will [illegible] [illegible] -- in the long run you do [illegible]

MRS. MOORE: I think in that [illegible] are highly capital intensive. In a situation where labour costs are the big factor, then a difference of 3 per cent or 5 per cent in interest rate, you would not expect it to be the determining factor.

MR. MOORE: Especially when they are not using borrowed money.

MRS. MOORE: Yes, if it is [illegible] it up and allowed for [illegible]

COMMISSIONER LEMAN: So, the sector of large capital investment, especially in relation to the use of labour, you would expect to be responsive?

MRS. MOORE: I think we always have to look to the total picture to see what area will be the sensitive one.

COMMISSIONER LEMAN: And hydro development would be typical of a responsive one?

MRS. MOORE: I think it should be.

COMMISSIONER BROWN: Can you give an example of any capital expansion that was deferred or not carried out because of high interest rates in the last few years?

MRS. MOORE: I can't, but I hope by the time the Commission has finished its hearings it will have had these brought to them. This came out in the hearings in 1933.

COMMISSIONER BROWN: That was in the middle of the depression.

MRS. MOORE: Yes, but right now the unemployment is 8.6 per cent, and in 1939 it was 11 per cent, and we have had it pretty high at some stages since then.

COMMISSIONER BROWN: But you referred to the utilities.

MRS. MOORE: No, when we say that was in the middle of the depression ---

COMMISSIONER BROWN: Mr. Moore referred to utilities.

MRS. MOORE: Yes.

MR. MOORE: But I wasn't referring to the dollars of expenditure; I was referring to a decision as to whether it would be a more or less

capital intensive form of generating power.

COMMISSIONER BROWN: But in the last five years where we have had high interest rates there has been no reluctance on the part of any of the utilities to borrow money for expansion. So, if interest rates were lower they would not have expanded any faster.

MRS. MOORE: Maybe some of the other municipalities may have -- we don't know.

MR. MOORE: I quite agree with the point Mr. Brown is making, but I don't think it is the point at issue. Isn't the point at issue, in the period in which you have an unutilized capacity and unutilized labour forces, what can be done to entice out expenditures which would not otherwise be made?

THE CHAIRMAN: That is so if we are sufficiently sure that that policy would accomplish your purpose. You have got to remember that other costs besides interest costs are rising, and many others are rising faster than interest rates, because interest rates are not going beyond a certain point. Perhaps they may be at a ceiling, whereas other costs are going up continuously, and if you increase the money supply indefinitely for the sole purpose of getting the interest rates to the desired point, and you have no control over the other costs, which in most cases are even a greater factor, are you going to accomplish that? Isn't that one of the difficulties? I am not suggesting you are wrong. I am just putting these questions.

MR. MOORE: Well, we had a floor on the price of bonds for some time after the war. We all see that was a mistaken policy, according to

the conditions of the time, but it suggests that in order to get the low interest rate, to use that technique it would not be an infinitely large increase in the quantity of money.

THE CHAIRMAN: It would be a larger increase than we have had up to the present time, but you don't know how much larger until you try.

MR. MOORE: One estimates it would have to be larger than the uncovered deficit of the federal government.

COMMISSIONER BROWN: Brazil has gone through a period of greatly expanded money supply: Has that influenced interest rates? I think down there they are up to about 45 per cent now.

MR. MOORE: Yes, in the context of a long history of rising price levels. So, the effect of interest rates is taken into account. You can cite Canada: You have high interest rates -- 17 per cent or thereabouts, which just indicates the complexity of the subject matter you have to address yourselves to.

COMMISSIONER LEMAN: In your Point No. 2 you suggest that perhaps a nice rate of increase of money supply would be 4 per cent per year if you had the autonomous money policy rather than the administered money policy. Granted that the increase in money supply since the beginning of 1957 may have been a little jerky and uneven: The fact is that the average rate during the period has been at least 4 per cent, hasn't it?

MRS. MOORE: Yes, it has. When I put the 4 per cent down I had in mind two things: That it is easier to expand than to contract. My thought was we would increase as little as possible and do it to

[illegible] the same, but to suggest that in order to get the low interest rates, I use that technique it would not [illegible] infinitely large increase in the quantity of money.

THE CHAIRMAN: It would [illegible] larger [illegible] than we have had up to the present time, but you don't know how much larger it'll get [illegible].

MR. MOORE: One estimate [illegible] would have to be larger than the [illegible]

COMMISSIONER BROWN: [illegible] through a period of greatly expanded money supply. Has that influenced interest rates? I think down there they are up to about 4½ per cent now.

MR. MOORE: Yes. In the context of a long history of rising price levels. So, the effect of interest rates is taken into account. [illegible] You have [illegible] the complexity of the subject [illegible]

COMMISSIONER [illegible]: In your [illegible] you suggest that perhaps a nice rate of increase of money supply would be 4 per cent per year if you had the [illegible] money policy rather than [illegible] money policy. Granted that the increase in money supply since the [illegible] of 1951 may [illegible] The fact is that [illegible] average [illegible] during the period has been [illegible] 4 per cent, hasn't it?

MRS. MOORE: Yes, it has. When I put [illegible] I had in mind two things: That [illegible]

see what effect it may have. In other words, I am not suggesting we plunge in with a tremendous expansion -- not into the deep end of the pool, anyway, but the shallow end and walk through. So, there would not be this quick, rapid unknown, but it would be tested as we went along.

COMMISSIONER LEMAN: Do I gather the merit you see in this idea would be the regularity of this?

MRS. MOORE: The regularity, and I would think from the standpoint of banks and business this would have some of the advantages people used to talk about of the gold standard, of knowing what was going to happen. A sense of, "We won't expect next month to find the brakes have been applied completely or that, in fact, it has decreased." This would be a known and constant.

COMMISSIONER LEMAN: Do you think that this regular increase, if you hit upon some periods under conditions where there was danger of a demand for inflation, that the two coupled together might produce under certain conditions a runaway situation?

MRS. MOORE: I don't think you would get that, because you have your Bank of Canada and you have control. This is not something we are throwing to the winds. It is letting the reins out a bit and still holding them in hand. I do not suggest anything quite so ruthless as dropping the reins completely.

COMMISSIONER GIBSON: Isn't this what has happened in the last, let us say, year? There has been a very substantial increase in the money supply during this period -- one of the large ones. Are you advocating further increase in the money

supply -- a further increase in this rate of increase -- the thing I am trying to get at is that interest rates have responded only to a moderate degree to this substantial increase in the money supply. The degree is a little different in the United States, but we live in a country with an exchange rate, and we have to operate with the Americans and everybody else. I would like your considered view as to whether this should be pushed more, or is the kind of thing being done now sensible?

MRS. MOORE: Yes, I think the kind of thing being done is sensible, and we would not expect to get the complete effect within this short period of time of a few months into 1962. I certainly recognize we are an open economy, and the winds of international influence blow through, either for good or bad.

COMMISSIONER MACKINTOSH: But you don't recognize that in your reasoning. The bank which is charged with running or administering monetary policy has to look over one shoulder at the debt, and over the other shoulder at the international balance.

MRS. MOORE: Yes, that is true.

COMMISSIONER MACKINTOSH: And there is no presumption that a year-by-year increase of 3, 4 or 5 per cent -- whatever you think is desirable -- will fit into the exigencies. It would be nice to be autonomous, but we are not.

MR. MOORE: I don't think you can have it both ways, and if we want all the benefits from our free interest rate, perhaps we should say the bank should not look over its shoulder because of

supply -- a further [illegible] in this [illegible] [illegible] thing I am trying to get at [illegible] interest rates have [illegible] only to a [illegible] degree to this substantial increase in [illegible] supply. The degree is a little different in the United States, but we live in a country with an exchange rate, and we have to [illegible] with the Americans and everybody else. I would like your considered view as to whether [illegible] would [illegible] pushed more, or is the kind of thing being done [illegible]

MRS. MOORE: Yes, I think the kind of thing being done [illegible] we would not attempt to get [illegible] [illegible]

recognize we are [illegible] of [illegible] [illegible] blow [illegible] for good or bad.

COMMISSIONER FAGALINCOSH: But you don't recognize that in your reasoning. The one which is charged with running or administering monetary policy has to look over one shoulder at the [illegible] and over the other shoulder at the [illegible] balance.

MRS. MOORE: Yes, that is true.

COMMISSIONER FAGALINCOSH: [illegible] [illegible] year-by-year increase of [illegible] -- whatever you think [illegible] -- will fit into the [illegible]

It would be nice to be autonomous, but we are not.

MR. MOORE: I don't think you can [illegible]

international complications. Let adjustments come as they may if we are going to take autonomous monetary policy as advocated by the main advocate of it. Then you have to pretty well take it all, or part of it.

COMMISSIONER MACKINTOSH: What do you say about debts?

MR. MOORE: Where you have a distribution between longs and shorts?

COMMISSIONER MACKINTOSH: The whole area. Suppose your government deficit won't be financed by a 4 per cent increase?

MR. MOORE: The question is whether it could be viewed at an appropriate rate of increase.

COMMISSIONER MACKINTOSH: Appropriate to what?

MR. MOORE: Whatever you chose -- 4 per cent or 5 per cent. If you started from a period when you thought things were pretty much in imbalance, that is, the quantity of money, the rate of growth and economy, and fairly stable price level, and then you begin your system of saying that we cannot catch the turning points; we want to restrain because of excess aggregate demand inflation, but in late 1956 we went to do that and then the monetary strings were held onto too long -- we don't really know. Even if we catch the change we cannot catch the magnitude of the change and therefore we will try to be neutral, run at X per cent every year and let it go. If you are doing that, you can't also be trying to influence what is happening in the money market. Obviously, you have given it away and adopted an automatic policy. You have to do it with a free flowing exchange rate and let that

as they may if we are going to take action [illegible] regulatory policies as described by the [illegible] of it. Then, you have to go by and take it all, or none of it.

COMMISSIONER MACKINTOSH: What [illegible]

MR. MOORE: Where you have [illegible]

COMMISSIONER MACKINTOSH: [illegible] Suppose your government deficit would be financed by [illegible] cent [illegible]?

MR. MOORE: The conclusion I [illegible] would be [illegible] we would.

MR. MOORE: Whatever you [illegible] cent or 3 per cent. If you [illegible] then [illegible] what you thought they were proper [illegible] imbalance. That is, the quantity of money, the [illegible] and [illegible] level, [illegible] your [illegible] we cannot match the [illegible] policies [illegible] because of [illegible] credit [illegible] out [illegible] the [illegible] monetary [illegible] years and let it go. If you are doing that, you can't [illegible]

bring a balance of whatever it may be, or find a price which strikes a balance into your international account. If you then run into a situation such as you suggest, sir, that the government was running a large deficit and simply could not float its bonds without a larger quantity of money -- increase of money in that year -- the autonomous monetary policy would have proved it could not handle the situation. But certainly the school of thought ---

COMMISSIONER MACKINTOSH: The Governor of the Bank ought to tick the Minister of Finance off?

MR. MOORE: We have tried the policy, and those who advocate the policy, including myself, are confident it would be able to after a period of adjustment, but certainly if it could not, then, that particular method would have met a resounding defeat.

MRS. MOORE: When we look back over the post-war period we were not worried about deficits in 1956, so that if you did let your economy get on with being prosperous you would not have to worry about the deficit.

COMMISSIONER MACKINTOSH: Yes, but don't assume these fluctuations are home-made. There were a lot of things that happened in 1956 including a very substantial shift in terms of trade as between countries exporting raw materials and so on and those exporting highly manufactured goods which profoundly affected our position.

MRS. MOORE: Yes, that is true, sir.

COMMISSIONER MACKINTOSH: I am not arguing against your proposition, but it is not as easy

value [illegible] of whatever it may be, or find a price which strikes a balance into your international account. If you then ran into a situation such as you suggest, [illegible] that the [illegible] was running [illegible] deficit [illegible], could not there [illegible] be [illegible] quantity of money -- increase of money in that year -- the economic recovery policy would have proved it could not handle the situation. But certainly the school of thought ---

COMMISSIONER [illegible]: [illegible] of the bank ought to face [illegible] Minister of Finance, etc.?

MR. MOORE: We have used the policy [illegible] in those [illegible] in our [illegible], [illegible] again, [illegible] it would [illegible] a [illegible] period of adjustment, but certainly [illegible] then, the particular method [illegible] [illegible] depending entirely.

MR. [illegible]: What [illegible] post-war period and one wouldn't worry about deficit in 1945, so that if you did let your [illegible] on with being [illegible] you would not have to worry about the deficit.

[illegible] those [illegible] are [illegible]. That [illegible] that [illegible] including [illegible] between [illegible] [illegible] and [illegible] [illegible] [illegible].

administratively as it is made out to be. Perhaps I am a bit averse to making the problem simple by just ruling out the difficulties and being arbitrary about the difficulties in the surrounding area.

MRS. MOORE: That is right.

COMMISSIONER MACKINTOSH: I have nothing further on that point.

THE CHAIRMAN: Well, will we go on to the next point? We are now at No. 3.

COMMISSIONER MACKINTOSH: No, it seems to me Point 3 is just an argument for re-defining savings accounts in the banking system and putting them in a new category as far as reserves are concerned. I do not quite follow all the reasoning but the objective is one that merits attention. I think there are perhaps some points in 4.

THE CHAIRMAN: No. 4.

COMMISSIONER BROWN: I will start off No. 4, Mr. Chairman, by just asking one question: Why? Why should residential construction be insulated from credit control?

MRS. MOORE: Well, when I look at my graphs -- and these were taken from Central Mortgage and Housing Corporation -- when you look at housing iiis used in a sense as a balance wheel towards running the economy and it does not quite seem to me that the type of place the citizens of the country live in should be used. Our housing should not be determined by the state of the business cycle, shall I say.

COMMISSIONER BROWN: Why not?

MRS. MOORE: By the net family formation

or some such basis as this.

Well, let us just look at the graphs and look where the interest rate is now and look what happened to it when it went there.

COMMISSIONER BROWN: I agree with your thesis that if the N.H.A. rate is not high enough it won't attract capital for housing.

MRS. MOORE: The bottom fell out of it but then look what happened to it. Look where they put it up to to protect us. At the time when the corporate and the long loan rate of interest was highest how it has gone to a peak but N.H.A. went to a plateau and this is something that the home buyers are being saddled with and this then, I presume, becomes a value judgment as to whether you think it is an important enough problem to the entire population that it should be taken out. Wehave used it as far as I can see as much as we can now. The interest rate is at the point where it is no longer useable as a balance wheel in the cyclical manoeuverability. I should think insulation at a rate which was part of the long-term growth factor because it will grow then in relation to the poplulation growth, income growth and will become part of an overall growth within the economy which is what I think it should be and this is the short-term ---

THE CHAIRMAN: Your idea is that it should be a steady growth rather than fluctuating?

MRS. MOORE: Yes, I think it should become that but not when you have to cut down the growth when it became too great. Growth cannot be cut down if we keep up the ability to grow. People keep on getting married and the population keeps

or some such basis as this.

Well, let us just look at the graphs and [illegible] the interest rate is now and look what happened to it when it went there

CONGRESSMAN [illegible]: I agree with your thesis [illegible] F.H.A. [illegible] is not high enough it won't attract capital [illegible] housing.

MRS. MOORE: The bottom fell out of it but then look what happened to it. Look where they put it up to to protect us. At the time when the [illegible] and the long loan rate of interest was highest how it has gone to a peak but F.H.A went to a plateau and this is something that the home buyers are being saddled with and this then, I presume, [illegible] it you think is an [illegible] to the entire population that it should be [illegible] rate. We have used it as far as I can see as much as it can now. The interest rate is at the point where it is no [illegible] useable as a balance wheel in the [illegible] I should think [illegible] at a rate which was part of the long-term growth factor because it will [illegible] in relation to the population growth, income growth and will become part of an overall growth within the economy which is what I think it should be and this is the [illegible]

THE CHAIRMAN: Your idea is that it should be a steady growth rather than fluctuations?

MRS. MOORE: Yes, I [illegible] that but not when you have [illegible] when it became too great. [illegible] it down if we keep up the [illegible]

growing.

MR. MOORE: I think your answer has to be that there has to be insulation in the residential building but that here there is unsatisfactory economic growth which apparently is going to go on for some time that has a social value judgment and that is essential to your argument.

THE CHAIRMAN: Well, under the conditions I would not think a reduction in the interest rate would have too much effect. The cost of building is going up.

MRS. MOORE: I imagine what it would amount to eventually would be that it would be a subsidy to enable that to happen and then I suppose we would ask the question: Well, this is an appropriate place, namely the homes of the citizens of the country to apply a general subsidy.

THE CHAIRMAN: It is impossible to have everything neat and tidy because there are changes coming about.

MRS. MOORE: Nothing is neat and tidy in the economy.

THE CHAIRMAN: Not where it is a growing economy.

MRS. MOORE: It is tidier in a growing economy than in an unstable economy.

THE CHAIRMAN: I do not think it is. That is one of the difficulties that there are periods when it has to settle down once in a while.

MRS. MOORE: Well, this is the main point. You always run into problems if you start thinking of the question of economy because there are allowances for taxation etc.

COMMISSIONER BROWN: I agree with you.

You make an assumption and I say why do you use it isolated from the effect of monetary control.

MRS. MOORE: When I look at the graph and see what happened to it when it has not been isolated from it I think it has, shall we say, gone as far as it can go in the present time and then the alternative is this insulation problem which does involve a certain amount of subsidy.

COMMISSIONER LEMAN: Well, Mrs. Moore, just for the sake of argument let us accept the desirability of being objective, do you mean you would insulate only the buyer from the effects of monetary control or would you also insulate all who have anything to do with the construction industry, including big suppliers and merchants?

MRS. MOORE: Yes, I know what you mean, Mr. Leman. I live in the suburbs and I watch these production plans going into operation, the digging of basements, cement and so on. It is really quite an assembly line production in Toronto in the suburban area.

THE CHAIRMAN: You do not have to go as far as Toronto to see it.

MRS. MOORE: No, it is in Burnaby too.

THE CHAIRMAN: Well, I can see the point of it but if you are going to insulate this group what about the matter of the contractor or anybody else.

MRS. MOORE: The house won't be built if they are borrowing at this higher rate so that the home owner won't be able to pay it at the lower rate because they have not been able to get the mortgage funds to do so.

COMMISSIONER LEMAN: Well, I am suggesting

You make an assumption and I say why do you use it isolated from the effect of monetary control.

MRS. MOORE: When I look at the growth and see what happened to it when it has not been isolated from it. I think it has, shall we say, gone as far as it can go in the present time and then the alternative is this insulation problem which does involve a certain amount of [illegible].

[illegible]

Just for the sake of argument let us accept the [illegible] of being objective, [illegible] would insulate [illegible] from the effects of monetary control or would you also insulate all who have anything to do with the construction industry, including big suppliers and [illegible]?

MRS. MOORE: Yes, I know [illegible], Mr. [illegible]. I live in the suburbs and I watch these [illegible] plans going into operation, the digging of basements, cement and so on. It is really quite an assembly line production in Toronto [illegible].

THE CHAIRMAN: You do not have to go as far as Toronto to see it.

MRS. MOORE: No, it is in Burnaby [illegible].

THE CHAIRMAN: Well, I can see the point of it but if you are going to insulate this group what about the matter of the contractor or [illegible]

[illegible]

MRS. MOORE: The house won't [illegible].

If they are borrowing at this higher rate so that the home owner won't be able to pay it at the [illegible] rate because they have not been able to get [illegible]

that it is an extremeley pervasive industry , it fits a lot of sectors of the economy?

MRS. MOORE: This is why it is in the way it has been because it is in the urban areas.

COMMISSIONER MACKINTOSH: I am not very familiar with this field but I suspect you will find that the taxes on these houses are not provided by the little home owner; they are provided by the speculative builder who builds for sale and it is those home owners whom you would have great difficulty insulating unless you took over residential accommodation first?

COMMISSIONER LEMAN: Family formation and house construction has quite an impact also on a plant's sales?

MRS. MOORE: Oh, certainly.

COMMISSIONER LEMAN: So it is the right to insulate here, if you want. Mr. Brown asked you why. How about the "how" now?

MRS. MOORE: You see, in Canada, we never developed building loan societies because of the nature of the financial structure. It has grown up, the savings often were used in long-term, the same way as they have in other countries and I would be hopeful that a fact such as that suggested in No. 3 would result in building a loan society and some specialized type of institutions going up and that some of the funds would become available in the long term, savings funds that become available in this long-term investment.

COMMISSIONER LEMAN: At this ideally fixed interest rate you have in mind?

COMMISSIONER BROWN: Why would they invest their money, Mr. Chairman, when they can

[illegible] t of sectors of the economy?

MRS. MOORE: This is why it is in the way it has been because it is in the urban areas.

COMMISSIONER MACKINTOSH: I am not very familiar with this field but I suspect you will find that the taxes on these houses are not provided by the little home owner; they are provided by the speculative builder who builds for sale and it is these home owners whom you would have great difficulty insulating unless you took over residential accommodation first?

COMMISSIONER LEMAN: Family formation and house construction has quite an impact also on a plant's sales?

[illegible]

COMMISSIONER LEMAN: So it is the point to insulate here, if you want. Mr. Brown asked you why. How about the "how" now?

MRS. MOORE: You see, in Canada, we never [illegible] specialize because of the nature of the financial structure. [illegible] the savings [illegible] used in long-term, the same way as they have in other countries and I would be hopeful that a fact such as that suggested in No. 3 would result in building [illegible] and some specialized type of institution giving [illegible] that some of the funds would become available in the long term, savings into these become available in this long-term investment.

[illegible] interest rate you have in mind?

COMMISSIONER BROWN: [illegible]

get a better rate of return elsewhere?

MR. [illegible]: You see, you have to couple the two proposals together and that is (1) that you get specialized financial institutions which specialize in the long market and mainly invest in mortgages and that is your building and loan societies but if you want to stabilize the rate of interest below the level it would find itself in the particular market, then you have to bring in your social values such as subsidies, with someone picking up the difference between what would be the market rate and the price paid by the purchaser. This was our thinking on that.

MRS. MOORE: When you think of it this is one of the ways out.

THE CHAIRMAN: If you subsidize the interest then the costs go up beyond the subsidy of the interest.

MR. MOORE: Again you have to have regard to the conditions of the period and I am saying that her proposal is addressed to the conditions prevailing since mid-1957 and I think she expects will continue for some time yet and therefore I do not think she would have advanced this for conditions of 1947 or even 1950 and 1951 or perhaps even 1955 and 1956.

THE CHAIRMAN: Shall we go on then

No.

MRS. MOORE: I am hoping, sir, that in the course of your deliberations that others will be spurred on to a more thorough analysis and may come up with other answers too. I do not pretend to have, shall we say, finalized thinking in this field.

[illegible]: You see, you have to couple the two proposals together and that is (1) that you get specialized financial institutions which specialise in the long market and mainly invest in mortgages and that is your building and loan societies but if you want to stabilise the rate of interest below the level it would find itself in the particular market, then you have to bring in your social values such as subsidies, with [illegible] picking up the difference between what would be the market rate and the price paid by the purchaser.

[illegible]: When you think of it this is one of the ways out.

[illegible]: [illegible] subsidise the interest than the costs go up beyond the [illegible] of the [illegible].

MR. MOORE: Again you have to have regard to the conditions of the period and I am saying that [illegible] proposal is addressed to the conditions [illegible] and I think she expects will continue [illegible] and therefore I do not think she would have envisaged [illegible] conditions of 1947 or even 1950 and 1951 [illegible] even 1955 and 1956.

[illegible]: Shall we go on [illegible].

[illegible], that in the [illegible] will be [illegible] thorough analysis and [illegible] come up with other measures [illegible] have, [illegible] says,

THE CHAIRMAN: This is very interesting, Mrs. Moore. Thepoints that you have raised are the sort of points that we have to face and we are obliged to you for doing so.

MRS. MOORE:
Now, No. 5 in a sense makes me very sad because I am at heart a rugged free enterpriser and to suggest that the individual be anything but, shall we say, not the first port but first into port is not something that I would hope for but I am not at all happy with what is happening in the consumer credit field.

Again going back to what Mr. Leman pointed out on durables that you are today used to thinking of in the Calgary area and the Burnaby area where whole great farms are taken in a matter of months and houses literally sprouting out of the ground with the owners buying stoves and refrigerators and washing machines, sometimes deep freezers and things like this and go either to the discount houses along the way or to any of the other retail outlets when they purchase goods. Although they have contact with their local branches: "Well, may I borrow this money for this sort of thing?" Or to say to the seller: "Well, how much does it cost?" and they say, "Well, including the interest rate it costs this much per month" and: "Well, I cannot make that monthly payment" -- "Well, we will stretch the monthly payments a little longer for you, can you make this?" -- "Yes I can". I was very unhappy about this situation and it seemed to me in 1947, 1948 and 1949 when our unemployment figure was away down, around 2 per cent, not much above it, and these contracts were running for maybe a couple

THE CHAIRMAN: This is very interesting, Mrs. Moore. The points that you have raised are the sort of points that we have to face and we are obliged to you for doing so.

Now, No. 5 in a sense makes me very sad because I am at heart a rugged free enterpriser and to suggest that the individual be anything but, shall we say, not the first port but first into port is not something that I would hope for but I am not at all happy with what is happening in the consumer credit field.

Again going back to what Mr. Lamar pointed out on durables that you are today used to thinking of in the Calgary area and the other area where whole great areas are taken in a matter of months and houses literally sprouting out of the ground with the owners buying stoves and refrigerators and washing machines, sometimes deep freezers and things like this and go either to the discount houses along the way or to any of the other retail outlets when they purchase goods. Although they have contact with their local branches: "Well, may I borrow this money for this sort of thing?" Or to say to the seller: "Well, how much does it cost?" and they say, "Well, including the interest rate it costs this much per month" and: "Well, I cannot make that monthly payment" -- "Well, we will make the monthly payments a little longer for you, can you make this?" -- "Yes I can". I am very unhappy about this situation and it seemed to me in 1947, 1948 and 1949 when our unemployment rate was away down, around 2 per cent, not much above it, and these contracts were running for maybe a couple

of years with the risk unfortunately of both people not being able to pay, not in the order of 24 per cent.

THE CHAIRMAN: Did it ever occur to you that they might save the money?

MRS. MOORE: Oh yes sir, it occurred to me and I am not sure that it occurred to them and I do not know whether the economy would have been better off if it had because it would have had an adverse effect upon it.

THE CHAIRMAN: Maybe not, but if people want to buy goods on payments there are certain reasons attached to it.

MRS. MOORE: Yes, but 24 per cent, sir, this is high. This was the thing. It seemed to me that in a country of independent people such as ours that we ought to be able to -- and there are even private institutions which should have been able to bring the interest rate down but to those who have gone into the field it is surprising how little competition there has been. So that where the competition has come it has come in monthly payments: "We can let you have a longer period or a lower monthly payment". This has been in economics really the reckoning factor rather than the cost of money and I think the consumer in many cases, when you have said to him: "Do you realize you are paying 15 per cent?" has said that he realizes it but nevertheless goes ahead with it.

THE CHAIRMAN: That is a problem we are faced with, I appreciate that.

COMMISSIONER LEMAN: Mrs. Moore, we were shown by the credit unions in British Columbia that

of years with the risk unfortunately of both people not being able to pay, not in the order of [illegible].

THE CHAIRMAN: Did it ever occur to you that they might save the money?

MRS. MOORE: Oh yes sir, it occurred to me and I am not sure that it occurred to them and I do not know whether the economy would have been better off if it had because it would have had an adverse effect upon it.

THE CHAIRMAN: Maybe not, but if people want to buy goods on payments there are certain reasons attached to it.

MRS. MOORE: Yes, but 24 per cent, sir, this is high. This was the thing. It seemed to me that in a country of independent people such as ours we ought to be able to -- and there are even private institutions which should have been able to bring the interest rate down but to those who have gone into the field it is surprising how little competition there has been so that where the competition has come it has come in monthly payments: "We can let you have a longer period or a lower monthly payment". This has been in our opinion really the reckoning factor rather than the cost of money and I think the consumer in many cases, when you have said to him: "Do you realize you are paying 18 per cent?" has said that he realizes it but nevertheless goes ahead with it.

THE CHAIRMAN: This is a problem we are faced with. I appreciate that.

interest rates on relatively small loans could be lower but they have a particularly advantageous way of operating it in the sense that their costs of loaning and collecting are quite low, they do not pay much in the way of salaries and there is a lot of personal devotion going through all this. Do you have any idea what the administrative cost is on small loans? What do you think would be a reasonable interest rate? You are not suggesting it should be 5 per cent?

MRS. MOORE: No sir, I am not. I agree with you. I notice in the Small Loans Act, for example,an item of $300, when you think of the person who has to borrow $300 and he pays 2 per cent per month -- this is the ceiling -- then it seems to me that a person in that position, the interest charges must be a very heavy burden upon him when he isinthat position and I grant you that it probably costs him as much to service a $300 one as it does a $3,000 one but I think one needs to have a good deal more data on this before one could do a cost analysis. I am sure the honourable gentlemen will be asking this in the course of their deliberations. But it is an area which affects such a large proportion of the Canadian population.

THE CHAIRMAN: Well, we do intend -- and I understand we shall have briefs from institutions of this kind and this is one of the problems we expect to go into very thoroughly.

MRS.MOORE: My thought of having this government operation was simply this, that if the risk is sizeable you look for the general basis upon which to put it and this seems to be

interest rates on relatively small loans could be lower but they have a particularly advantageous way of operating it in the sense that their costs of lending and collecting are quite low, they do not pay much in the way of salaries and there is a lot of personal devotion going through all this. Do you have any idea what the administrative cost is on small loans? What do you think would be a reasonable interest rate? You are not suggesting it should be 5 per cent?

MRS. MOORE: No sir, I am not. I agree with you. I notice in the Small Loans Act, for example, an item of $300, when you think of the person who has to borrow $300 and he pays 2 per cent per month -- this is the ceiling -- then it seems to me that a person in that position, the interest charges must be a very heavy burden upon him when he is in that position and I grant you that it probably costs him as much to service a $300 one as it does a $3,000 one but I think one needs to have a good deal more data on this before one could do a cost analysis. I am sure the honourable gentlemen will be asking this in the course of their deliberations. But it is an area which affects such a large proportion of the Canadian population.

THE CHAIRMAN: Well, we do intend -- and I understand we shall have briefs from institutions of this kind and this is one of the problems we expect to go into very thoroughly.

MRS. MOORE: My thought of having this government operation was simply this, that if the risk is so simple you look for the general

if there has not been inducement in the proper field that perhaps this is the place where it should go. Maybe this would be the other inducement to the government to see that employment stays at a low level. It is automatically tied in with business failure and loan failure.

THE CHAIRMAN: Well, we are very much obliged to you, Mr. and Mrs. Moore, and we assure you that we found it a very interesting discussion.

MRS. MOORE: Thank you very much.

THE CHAIRMAN: Do not take us too seriously when we may have appeared to have been sitting on the other side of the fence all the way through.

MRS. MOORE: Thank you very much.

THE CHAIRMAN: That is our general practice.

MRS. MOORE: Thank you, sir.

THE CHAIRMAN: We shall now adjourn for 15 minutes.

--- Recess

D

SUBMISSION OF MR. JOHN R.

HORNE-PAYNE

THE CHAIRMAN: Mr. Horne-Payne, we have all read your brief with great interest, and I do not think it is necessary to call upon you to read it verbatim again for us, but no doubt there are members of the Commission who will have questions which will lead into a discussion.

MR. HORNE-PAYNE: Thank you.

THE CHAIRMAN: Is that satisfactory to you?

MR. HORNE-PAYNE: Certainly, sir.

THE CHAIRMAN: Unless there is a statement you have first?

MR. HORNE-PAYNE: The only thing is, I would like to say I owe all the Commissioners an apology in that I have been away for about a month and this is the first time I have seen the brief for about a month, and I realize it is very badly constructed in many ways, but I did not have the time to do the research I would like to have done, and I have treated the thing in the broadest possible manner, and I hope it will be treated very broadly.

THE CHAIRMAN: I suppose, perhaps, the best way to approach this would be to go through your various points and start with your conclusions one by one. Would that be satisfactory?

MR. HORNE-PAYNE: Certainly, sir.

THE CHAIRMAN: The first relates to the organization of the Bank of Canada. I think we will

treat that as one whole subject matter and questions might be asked on any of the subsidiary points.

COMMISSIONER GIBSON: Mr.Chairman, would it be permissible to ask a few questions about the introduction first?

THE CHAIRMAN: Yes.

COMMISSIONER GIBSON: Mr. Horne-Payne, I was interested in the comment you make at the bottom of page 3 in the introduction in which you say:

> "All forms of inflation have their origin in monetary inflation but a restricted money supply, with resulting high interest rates, can only check cost inflation through creating unemployment which it influences."

The text of that statement, the preceding paragraph, is the strong upturn in 1955 to 1957, and what I would like to ask you and get your comments on is, was not this period of 1955 to 1957 a capital investment boom? Indeed, you do so describe it?

MR. HORNE-PAYNE: Certainly.

COMMISSIONER GIBSON: In a period of high employment?

MR. HORNE-PAYNE: Yes.

COMMISSIONER GIBSON: In those circumstances wasn't it desirable to check excessive demands for resources, both human and material -- indeed, to have some form of policy which would check the investment boom to a degree?

MR. HORNE-PAYNE: Well, the answer to Mr.Gibson, is this: That during that period, I agree it was most definitely a capital investment boom, but for quite an appreciable period before --

would it be permissible to ask a few questions about the introduction first?

THE CHAIRMAN: Yes.

I was interested in the comment you make at the bottom of page 3 in the introduction in which you say:

"All forms of inflation have their origin in monetary inflation but a restricted money supply, with resulting high interest rates, can only check cost inflation through creating unemployment which it influences."

The text of that statement, the preceding paragraph, is the strong upturn in 1955 to 1957, and what I would like to ask you and get your comments on is, was not this period of 1955 to 1957 a capital investment boom? Indeed, you do so describe it?

COMMISSIONER GIBSON: In a period of high [illegible]

MR. [illegible]-PAYNE: Yes.

COMMISSIONER GIBSON: In those circumstances wasn't it desirable to check excessive demands for resources, both human and material -- indeed, to have some form of policy which would check the investment boom to a degree?

MR. [illegible]-PAYNE: Well, the answer to Mr. Gibson, is this: That during that period, [illegible] nitely a capital investment [illegible] for quite an appreciable period before --

it came to an end in 1957 -- there were marked signs of deflation and demand which I would probably describe as a beginning of price resistance. So, to apply a restrictive monetary policy in the particular circumstances wherein you had a very, very large capital inflow, then the restrictive monetary policy and its effect of keeping interest rates high, if anything, encouraged the capital inflow, so that it did not in any real way restrict the investment boom, and the investment boom surely was coming to an end automatically, as all such booms. After all, it has been the history of Canada, I think, that we have gone ahead in huge lurches and over-invested temporarily, and it has automatically come to an end, and we have had to wait for a long period for demand to catch up with increased productive capacity. Tight monetary policy certainly will restrict and eventually bring to an end the investment boom, but at the same time if demand is meeting price resistance, which has already started, by then, then a tight monetary policy tends to increase costs. I maintain our form of inflation at that time was cost inflation and not demand inflation. That was my main criticism of the tight monetary policy at that time. I don't see how a tight monetary policy can have very much effect on costs unless it is also a fiscal policy at the same time.

COMMISSIONER GIBSON: I realize the dilemma you point out about the attraction of high [illegible] tes for funds coming into the country, but, nevertheless, it would seem to me at least a good part of the period from 1955 to 1957 was like the sort of period of boom which you refer

[illegible] and in 1957 -- there were marks, signs of deflation and demand which I would probably describe as a beginning of price resistance. So, to apply a restrictive monetary policy in the particular circumstances wherein you had a very, very large capital inflow, that the restrictive monetary policy and its effect of [illegible] rates high, if anything, encouraged the capital inflow, so that it did not in any real way restrict the investment boom, and the investment boom surely was coming to an end automatically, as all such booms. After all, it has been the history of Canada, I think, that we have gone ahead in huge lurches and over-invested temporarily, and it has automatically come to an end, and we have had to wait for a long period for demand to catch up with increased productive capacity. [illegible] monetary policy certainly will restrict and eventually bring to an end the investment boom, but at the same time if demand is meeting price resistance, which has already started, by then, then a tight monetary policy tends to increase costs. I maintain the form of inflation at that time was cost inflation and not demand inflation. That was my main criticism of the tight monetary policy at that time. I don't see how a tight monetary policy can have very much effect on costs unless it is also a fiscal restrictor at the same time.

COMMISSIONER PLAUNT: I realize in [illegible] the attraction of [illegible] funds coming into the country, [illegible], it would seem to me at least [illegible] part of the period from 1956 to 1957 [illegible] period of [illegible].

to later in talking about the Keynes approach where some form of credit restriction and higher interest rates for long-term capital would be appropriate. There is the inference here that this credit restraint in this period may have added to unemployment and, as you say here, you refer to cost inflation and talk about the creation of unemployment later on, and it would seem to me ---

MR. HORNE-PAYNE: To be quite honest, I don't understand how monetary policy is really very applicable to cost inflation. Certainly it can choke off demand very quickly if it is drastic enough.

COMMISSIONER GIBSON: But you would not argue that restraint in a time of boom was going to create net unemployment? Isn't the theory that if you chop off the demand when it is excessive you will probably have a stage of re-adjustment after the boom?

MR. HORNE-PAYNE: That is my point. I don't consider that at that period the demand ever really was excessive. We certainly had -- and, go back to the Korean period, and we had a very obvious demand inflation, artifically created by fear.

COMMISSIONER GIBSON: Perhaps it was not excessive across the board, but there was certainly a shortage -- at least, some of the construction materials were rising quite rapidly, and labour rates were going up rapidly in this period, which are indications of shortage of resources.

MR. HORNE-PAYNE: But your high interest rates resulting from the restrictive monetary policy had the effect of restricting capital inflation,

which was primarily an investment boom.

COMMISSIONER GIBSON: At the same time this is out of keeping a bit, that the rates were based on a Keynes approach.

MR. HORNE-PAYNE: It may be a little. I think Canada is in a very difficult position and almost always will be on an occasion such as that.

COMMISSIONER GIBSON: Could I carry on in a similar vein a little on these general questions. In talking about monetary policy I get the feeling that your emphasis is on working through short interest rates: Is that the correct feeling?

MR. HORNE-PAYNE: Yes, because that is the main effect of all monetary policy, I think you will agree. It is bound to be on the short rate.

COMMISSIONER GIBSON: But this comes back to the point I was raising before: Do you think monetary policy should concern itself quite seriously with long rates when you have a capital investment boom?

MR. HORNE-PAYNE: Yes, it should. It should, but I think it should do so through the short rates.

COMMISSIONER GIBSON: Having done the right thing on the short rates, the long rates will fall in line?

MR. HORNE-PAYNE: Exactly. I think there is a good illustration of that recently in the United States where they have endeavoured to tackle the long rate and they are trying to maintain a high short rate to discourage capital outflow, and at the same time to encourage the long rate, and it is not working out very well. However, at the same time I would like to point out while I

which was primarily an investment boom.

COMMISSIONER GIBSON: At the same time this is out of keeping a bit, that the rates were based on a Keynes approach?

MR. HORNE-PAYNE: It may be a little. I think Canada is in a very difficult position and almost always will be in an economy such as ours.

COMMISSIONER [illegible]: Could I carry on in a similar vein a little on these general questions in talking about monetary policy I [illegible] that your emphasis is on working through short-term interest rates? Is that the correct emphasis?

MR. HORNE-PAYNE: Yes, because [illegible] is the main effect of all monetary policy, I think you will agree. It is bound to be on the short rate.

COMMISSIONER GIBSON: But this comes back to the point I was raising before [illegible] think monetary policy should [illegible] quite seriously with long rates when you have a [illegible] investment boom?

MR. HORNE-PAYNE: Yes, it should. It should, but I think it should do so through the [illegible]

COMMISSIONER [illegible]: [illegible] the right thing on the short rates, the long rates will fall in line.

MR. HORNE-PAYNE: Exactly. I think there is a good illustration of that recently in the United States when they have endeavoured to tackle the long rate and they are trying to maintain a high short rate to discourage capital outflow, and at the same time to encourage the long rate.

describe the Keynes theory, to some extent the point I am trying to make is that the problem of the Bank of Canada was not so much that, as to show it was not co-operating with the government. That was my main point.

COMMISSIONER GIBSON: Yes, I realize that.

MR. HORNE-PAYNE: That the Bank policy and the government policy appear to be in conflict, and I think that is a rather impossible situation.

COMMISSIONER GIBSON: On the general trend of developments again, and going on through the introductory section, on page 5 you make the point that monetary supply increases rapidly but interest rates remain inexplicably high. This is from 1957 to 1961?

MR. HORNE-PAYNE: That is right.

COMMISSIONER GIBSON: Although you point out later there were times when short interest rates were quite low in that period.

MR. HORNE-PAYNE: They fluctuated enormously.

COMMISSIONER GIBSON: Yes, this is what I would like to get at. Is this phenomenon inexplicable to you, that interest rates should have remained so high when there was an increase in monetary policy?

MR. HORNE-PAYNE: I don't say it is inexplicable, but I think it is a strange circumstance which should not take place, because whether you wish to reflate or deflate over a period of time, whichever the period is -- say, you wish to deflate, there is not much point in trying to deflate and to have at the same time over that period minimum rates of interest and vice versa. If you are trying to

[illegible] Keynes [illegible] to some extent the [illegible] trying to make is that the problem of [illegible]

That was my main point.

COMMISSIONER G[illegible]: Yes, I [illegible] that.

MR. HORNE-P[illegible]: That the bank policy and the government policy appear to be in conflict, and I think that is a rather impossible situation.

COMMISSIONER G[illegible]: On the general trend of developments again, and going [illegible] through the introductory section, on page [illegible] you make the point that monetary supply increases rapidly, but interest rates remain inexplicably low. This is from 1957 to 1961?

MR. HORNE-P[illegible]: That is right.

COMMISSIONER G[illegible]: Although you point out later there were times when short interest rates were quite low in that period.

[illegible]

COMMISSIONER G[illegible]: Yes, this is what I would like to get at. Is this [illegible] to you, that interest rates should have remained so high when there was an [illegible] monetary policy?

MR. HORNE-P[illegible]: [illegible] may seem inexplicable, but I think it is [illegible] which should not take place, because whether you wish to inflate or deflate over a period of time, whichever the period is [illegible] you wish to deflate there is not much point in trying to deflate [illegible] at the same time [illegible]

inflate at that time there is not much point in having maximum interest rates.

COMMISSIONER GIBSON: I think many people are rather concerned that things have not altogether behaved as they ought to have in the last four or five years, but we have to try and explain it, and I was wondering what you thought some of the explanations were of this rather perverse situation.

MR. HORNE-PAYNE: I feel the Bank of Canada has not -- largely because we don't have a bank rate in the accepted use of the word -- a fixed bank rate which tells the whole country what the policy is, and the whole country, if it is sufficiently drastic, has to respond to it, and the Bank of Canada appears, in my view, to lack the authority it should have. At the same time, what authority it has had it seems has been exercised in a manner which was in conflict with the government policy, and the two things don't fit.

COMMISSIONER GIBSON: You think the substantial variability in monetary conditions, the lack of a definite signal and doubt in the minds of the financial community of public -- that these were all factors inthis somewhat perverse position?

MR.HORNE-PAYNE: I think they all are.

COMMISSIONER GIBSON: How about the fear of inflation? You do rather directly refer to this in places: Is there is a long-run problem here?

MR. HORNE-PAYNE: I made the statement that you have already pointed out, that in my view all forms of inflation bring essentially -- originate in monetary inflation, but when you have advanced cost inflation, from which I think we are still suffering, then, to try and contain that through monetary

[illegible] time there is not much point in [illegible] maximum interest rates.

COMMISSIONER GIBSON: I think [illegible] people are rather concerned that things have not altogether behaved as they ought to have in the last [illegible] five years, but we have to try and explain it, and I was wondering what you thought some of the explanations were of this rather perverse situation.

MR. [illegible]: [illegible] the Bank of Canada [illegible] not -- is only because we don't have a bank rate in the accepted use of the word -- a [illegible] bank rate which tells the whole country what the policy is, and the whole country, if it is [illegible] drastic, has to respond to it, not the Bank of Canada appears, in my view, to [illegible] the authority it should have. At the same time, [illegible] authority it has had it seems [illegible] a [illegible] which was in conflict with the [illegible] policy, and the two things don't fit.

COMMISSIONER GIBSON: You [illegible] the substantial [illegible] in monetary conditions, [illegible] lack of a definite signal and [illegible] the [illegible] of the financial community of [illegible] were all factors in this somewhat [illegible].

MR. [illegible]: I [illegible].

COMMISSIONER GIBSON: How about the [illegible] of inflation [illegible] either [illegible] in [illegible] places [illegible] a [illegible] problem [illegible]

MR. [illegible]: I [illegible] you have [illegible] pointed out, but in my view all forms of inflation [illegible] [illegible]

[illegible] inflation [illegible] you has [illegible] inflation [illegible]

policy alone is rather like shutting the stable door after the horse has gone. With demand inflation it is somewhat different, because there monetary policy can be very effective quickly, but I don't see how it can do more than influence cost inflation which should be dealt with, and I think must be dealt with in completely different ways -- certainly sympathetic monetary policy. But, cost inflation, if you get down to the bottom ofit all, is a question of finding some means of influencing the two main elements in cost, which are wages and taxes, and neither of those can be very effectively dealt with through monetary policies.

COMMISSIONER GIBSON: But you would agree that at any given time where there is inflationary background it is part of these two conditions, it is never 100 per cent one or the other?

[illegible]E-PAYNE: Sir, I agree.

[illegible] GIBSON: And that the two are related even though not noticeable.

MR. HORNE-PAYNE: You take that time roughly from 1957 on or that demand inflation which we had before the end of 1957 and there was a marked falling off. Looking back I now attribute it to the beginning of price resistance. At the [illegible] we had discussed inflation and had a monetary policy been adopted to deal with the thing it was beyond it because costs are not dependent on monetary policy, other than through interest rates but the cost of interest is a relatively minor thing, I admit that, in cost.

COMMISSIONER GIBSON: In coping with cost inflation would you believe that the monetary

[illegible] a matter like shutting the stable door after the horse has gone. With demand inflation it is somewhat different, because there monetary policy can be very effective quickly, but I don't see how it can do more than influence cost inflation which should be dealt with, and I think can be dealt with in completely different ways [illegible] symmetric monetary policy. But, [illegible] if you get down to the bottom of it all, is a question of finding some means of [illegible], the two main elements in cost, which are wages and taxes, and neither [illegible] very effectively [illegible]

[illegible]

[illegible] that at any given time where there is inflationary background it is [illegible] conditions, it is never 100 per cent one or the [illegible]

[illegible] Sir, I agree

[illegible]

[illegible] You take that [illegible] from 1957 on or that cost inflation which we [illegible] before the end of 1957 and there was [illegible] falling off. Looking back I [illegible] to the beginning of price [illegible] we had a [illegible] inflation [illegible] policy been adopted to deal with [illegible] beyond it because costs are not dependent [illegible]

but the cost of interest [illegible] thing, I admit that, in [illegible]

[illegible]

policy had, let us say, a supporting role to play?

MR. HORNE-PAYNE: In a minor way. I do not think a monetary policy can subscribe a great deal to cost inflation. But it must be sympathetic to any effort that the government makes to control cost inflation.

COMMISSIONER GIBSON: I find myself in some state of confusion on this because it seems to me a lot depends on what the state of inflation is at any given time. There is always some theme of demand and cost in it. One feeds on the other, certainly cost inflation feeds on demand inflation.

MR. HORNE-PAYNE: Well, Mr. Gibson, at that time, as has been pointed out, it should have been fairly clear that cost inflation was the major problem at the time. In 1957 we had had a substantial industrial activity which related back to this cost inflation. The only prices which were noticeable were in industrial commodities, things such as cement and lumber and things like that. Prices generally were high. Surely all those are indicative of cost inflation.

COMMISSIONER GIBSON: Would you care to say anything about how one could go about curing cost inflation?

MR. HORNE-PAYNE: I think the normal way -- we are having a fairly good illustration of that in Great Britain coming about today. The way to deal with that is through taxation and labour policy which are certainly nothing to do with the monetary policy, nothing to do with the Bank of Canada, in other words.

COMMISSIONER GIBSON: Joining the common

[illegible] lot [illegible] say, [illegible]

[illegible]

do not think [illegible]

great deal to what [illegible]

something to say at any rate. My own [illegible]

COMMISSIONER [illegible] I [illegible]

in some state of confusion on this because it seems to me a lot [illegible] cost [illegible] inflation is [illegible] some [illegible] on the other, certainly cost inflation [illegible]

MR. HORN[illegible] at that time, as has been [illegible] have been fairly clear that cost [illegible] the major problem at the time. I [illegible] had a substantial [illegible] activity [illegible] related back to this cost inflation. The [illegible] prices which were noticeable were in industrial commodities, things such as cement and lumber and [illegible] [illegible] high. [illegible] indicative of cost inflation.

COMMISSIONER [illegible] What [illegible] say anything about how one [illegible] cost inflation?

[illegible] I think the [illegible] [illegible] cost inflation [illegible] about today [illegible] which that is [illegible] which are [illegible] monetary policy [illegible]

market too.

MR. HORNE-PAYNE: Such things as encouraging immigration and things like that have a great effect on cost inflation although it is unpopular.

COMMISSIONER BROWN: Would a different monetary policy at that timehave had any effect on cost inflation?

MR. HORNE-PAYNE: Well, I think, Mr. Brown, that an opposite policy might have achieved, in other words, a more liberal monetary policy and particularly directed at bringing down inflation, I think may have had some effect. This would have affected the exchange rate although I have observed that the increase in exports percentage-wise is almost exactly the same as the percentage benefits in the exchange. I think the evidence is that it is running now about 3 per cent over a year ago. We did have about a 3 per cent benefit from the exchange but I think the interest rates might have helped to get our exchange premium down and from discouraging capital inflow. It would not have forced it but it would have helped in that direction.

COMMISSIONER BROWN: How about the relationship between Canadian interest rates and American interest rates at that time?

MR. HORNE-PAYNE: That is exactly the point I am bringing out. We maintained a high interest rate in Canada at the time which was a source of most of the capital inflow and while that affects short-term money, nevertheless, even short-term capital inflow has its effect on the money supply.

I know in making that remark I am at odds with the late governor of the Bank of Canada,

Mr. Coyne, who said that capital inflow had no effect on the money supply. I disagree with that very, very greatly because a very substantial part of the capital inflow were funds borrowed in New York and those funds were spent on capital equipment which were perhaps not repayable for 20 years. A great illustration of this was the pipeline building which was a great part of the capital investment. It was bought in New York at lower interest rates. This was then spent abroad in buying pipe and capital equipment etc., and those debts were not repayable for anything from 10 to 20 years. In that case it is the same thing as going out and spending money, it is a new supply of money so it does affect the money supply. It [illegible] in other words, be cancelled out when the debt was repaid abroad, say, in 20 years' time. If you bring goods into a country, particularly capital goods, which have been paid for, surely that is synonymous with having a larger quantity of money to spend. Mr. Coyne would have been quite right if he had said that eventually it would affect the money supply. He would have been quite right because eventually Canadian money has to be repaid to redeem those loans. If we had a lower interest rate prevailing here in Canada then I think there would have been a better chance of this capital investment having been financed in Canada, which, from a national point of view, would have been to our advantage because in that case the United States would not control so much of our capital as they do today.

COMMISSIONER GIBSON: I do not see, Mr. Horne-Payne, that the influx of capital necessarily

affects the money supply. It seems to me that it might alter its composition but that it might only affect the money supply if the central bank was dealing with it. There have been times when influx of capital has led the central bank to increase the money supply but the [illegible]flux has to be turned into Canadian money way or another.

MR. HORNE-PAYNE: Eventually.

COMMISSIONER GIBSON: No, immediately, very shortly. It is very usually the sort of [illegible] of which we have been talking connected with capital investment either bought by Canada or put into Canada's direct development by equipment which has [illegible] to credit or [illegible]ved goods and which may have tobe turned into Canadian money.

MR. HORNE-PAYNE: Eventually.

COMMISSIONER BROWN: Immediately. If a lot of pipe is imported from the United States into Canada ---

MR. HORNE-PAYNE: No, not if they are paid for with American dollars bought abroad.

COMMISSIONER BROWN: If Canada bought [illegible] on the market . . So [illegible] are putting up these dollars and these dollars are used to pay for these goods imported into Canada.There is no increase in the Canadian money supply but you have the use of that foreign money.

COMMISSIONER GIBSON: There is no doubt you are importing actually goods but there is no change in the money supply.

MR. HORNE-PAYNE: No, I agree there is no actual change in the actual money supply for the moment but I take it if you have $100,000 in

[illegible] y supply. It seems to me that [illegible] its composition but that it might only affect the money supply if the central bank was dealing with it. There have been times when inflows of capital has [illegible] the central bank to increase the money supply [illegible] to be turned into Canadian money [illegible]

MR. GORDON-[illegible]: Essentially.

COMMISSIONER GLASSON: [illegible] immediately, very shortly. [illegible] is very usually the [illegible] of which we have been talking [illegible] investment either bought by the [illegible] Canada's direct [illegible]

[illegible]

MR. [illegible]: [illegible]

COMMISSIONER GLASSON: [illegible] a lot of [illegible] is imported from the United States [illegible]

MR. GORDON-[illegible]: No, not if [illegible] paid for with American dollars bought [illegible]

COMMISSIONER GLASSON: If German [illegible] [illegible] in the [illegible] the putting up [illegible] [illegible] used to pay for those goods [illegible] [illegible] There [illegible] in the Canadian money supply but you have the use of that foreign money.

COMMISSIONER GLASSON: There is no doubt you are importing actually goods but there is no change in the money supply.

MR. GORDON-PAYNE: No, I agree [illegible] actual change in the actual money [illegible]

your bank personally which is your money supply ---

COMMISSIONER GIBSON: That is a nice idea.

MR. HORNE-PAYNE: And if you borrow another $50,000 down in New York over a 10-year period you do not pay for that until 10 years but you spend that $50,000 on buying capital equipment and bringing it in and therefore your money supply has benefitted immediately by that $50,000 you borrowed.

COMMISSIONER BROWN: No, I do not see it.

COMMISSIONER MACKINTOSH: You are saying really, that there has been an increase in national expenditure, an increase in building?

MR. HORNE-PAYNE: Yes, that is right.

COMMISSIONER MACKINTOSH: But not necessarily in the money supply.

MR. HORNE-PAYNE: Not in the money supply as we know it by the cash and deposits in the bank.

COMMISSIONER BROWN: It has not had any inflationary tendency.

MR. HORNE-PAYNE: Well, yes, because the importation of those goods is a capital investment which helped to create the capital investment beginning which was inflationary.

COMMISSIONER BROWN: The inflation would come from perhaps the labour expendable in Canada but not the capital goods themselves?

MR. HORNE-PAYNE: No, the capital goods themselves are not inflationary because they are productive of things.

COMMISSIONER BROWN: So surely, Mr. Horne-Payne, the short run benefits are because

your bank currently [illegible] your money supply --

COMMISSIONER GIBSON: That is a nice [illegible].

MR. HORNE-PAYNE: And if you borrow another $50,000 down in New York over a 10-year period you do not pay for that until 10 years but you spend that $50,000 on buying capital equipment and bringing it in and therefore your money supply has benefitted [illegible] by the $50,000 you borrowed.

COMMISSIONER [illegible]: No, I do not see it.

COMMISSIONER [illegible] really, that there has been an increase in [illegible] expenditure, an increase in [illegible].

MR. HORNE-PAYNE: Yes, that is right.

COMMISSIONER [illegible]: But not necessarily in the money supply.

MR. HORNE-PAYNE: Not in the money supply as we know it by the cash and deposits in the bank.

COMMISSIONER [illegible] any inflationary tendency.

MR. HORNE-PAYNE: [illegible], because the importation of these goods is a capital investment which helped to [illegible] the [illegible] investment [illegible] inflationary.

COMMISSIONER [illegible] would [illegible] inflationary [illegible] the [illegible]?

MR. HORNE-PAYNE: No, the capital goods themselves are not inflationary because they are productive [illegible].

[illegible]

Horne-Payne, the short run benefits [illegible] be [illegible]

you have more goods in your economy than you otherwise would have had and therefore improve the demand to a greater degree.

MR. HORNE-PAYNE: Perhaps I can put what I have in my head in a different way. Say I were to stop this capital investment boom that had really drastically increased the money supply. Actually, the money supply was increased all the way through but you could borrow private money abroad and you were not going to stop the capital investment boom, were you? Now do you see what I am trying to get at? Whereas had through the same liberal monetary policy industry rates been kept low and particularly lower than in New York then I maintain we would have financed more of our industry in Canada, there would not have been the same encouragement to go abroad for funds and to that extent the capital equipment boom might itself have been restricted to some extent. But nevertheless all this, if I may suggest it, is not exactly what I was trying to get at in the brief. I was hoping to bring out the fact that the Bank of Canada's policy was in conflict with government policy. That is what I am trying to point out. I think government policy was at the time trying -- and I believe correctly -- to try to stimulate demand.

COMMISSIONER BROWN: Was this an announced government policy?

MR. HORNE-PAYNE: Well, prior to both elections I think I am right in saying that the Conservative party said that they wished to bring down interest rates presumably with a view to encouraging demand.

[illegible] n your economy that you [illegible] d [illegible] and therefore [illegible] u are [illegible].

MR. [illegible]: Perhaps [illegible] put [illegible] in a different way. Say I [illegible] [illegible] really [illegible] the [illegible] [illegible] way through but you would borrow outside money [illegible] investment boom, were you? Now do you see [illegible] I am trying to get at? Whereas [illegible] through the same liberal monetary policy [illegible] been kept low and particularly [illegible] than I maintain [illegible] [illegible] in Canada, then [illegible] [illegible] funds and to that extent the capital [illegible] which would have been restricted to some extent but nevertheless [illegible] is not exactly what I was trying [illegible] what I was having to bring out the fact [illegible] the lack of [illegible] policy was in [illegible] government policy. [illegible] point out. I think [illegible] policy [illegible] [illegible]

[illegible]: [illegible] government policy.

elections I think I am right in saying that [illegible]

COMMISSIONER BROWN: If I may interject, at that time they were not the government. I am asking if there was an announced government policy to this effect?

MR. HORNE-PAYNE: No, I do not think there was but I think we will have to assume that if a government in an election expresses certain policy we assume that is what they intend to do.

COMMISSIONER BROWN: That is what Mr. Bennett said.

COMMISSIONER MACKINTOSH: Might I ask a question on another point, Mr. Horne-Payne, with regard to the organization of the Bank of Canada. Your proposal is really that an economic council should be substituted for the Board of Directors, that the present board should be abolished.

MR. HORNE-PAYNE: I think Canada needs an economic council of some description and it seemed to me that the Bank of Canada or the Directors of the Bank of Canada would be a very easy and sound way of providing one permanently. Governments change from time to time and we might have a government in that does not want an economic council for some reason or other but if there was such a thing provided by the Bank of Canada then it would be permanently at the disposal of the government and the nation as a whole and it seems to me that the highly qualified directors of the Bank of Canada are performing that function very usefully. It would be a departure from what has happened before anyway, I admit that, but it is one way whereby, it seemed to me, the country could be provided with the highest possible quality of economic and financial advice.

COMMISSIONER BROWN: If I may interject, at [illegible] time, they were not the government. I am asking if there was an announced government policy to this effect?

MR. McMANAMY[illegible]: I do not think there was but I think we will have to assume that if a government in an election [illegible] certain policy we assume that is what they intend to do.

COMMISSIONER BROWN: That is what I wanted to [illegible].

[illegible] on another point, Mr. [illegible], with regard to the organization of the Bank of Canada. Your proposal is really that a[illegible] council should be [illegible] for the Board of Directors, that the present board should be abolished.

MR. [illegible]: I think [illegible] an economic council of some description [illegible] it seems to me that the Bank of [illegible]

[illegible] of Canada would be a very [illegible] way of providing one permanently [illegible] from time to time and in [illegible] government [illegible] that does not want an economic council [illegible] would [illegible] other [illegible] if there was such a thing provided by the Bank of Canada then I would be [illegible] by the [illegible] of the government and the nation as a whole and it seems to me that the [illegible] directors of the Bank of Canada [illegible] performing that function very [illegible]. It would be a departure from what has happened before anyway,

COMMISSIONER MACKINTOSH: Your proposal does not go so far as to suggest that the direction of the Bank should be transferred from a governor to a management committee, so to speak?

MR.HORNE-PAYNE: Well, indirectly I suppose it does, yes. Yes, it does really. I did not put that in but it does in effect mean that the directors would have to be directors in the fully accepted sense of the word.

THE CHAIRMAN: And the governor would be the servant of the board of directors.

MR. HORNE-PAYNE: The governor would be in the same position as the chairman of a board of directors.

THE CHAIRMAN: And the economic council, what sort of personnel would you envisage?

MR. HORNE-PAYNE: Well, I suggested -- and I am sure there are many valuable ---

THE CHAIRMAN: You are not suggesting they should all be economists, are you?

MR. HORNE-PAYNE: No, I certainly am not -- far be it from that, especially the present professorial type but I think there should be one or two leading economists, people highly practiced with experience in financing and banking, a combination of all those qualities and those people, they are now in Canada. Whether they could be persuaded to serve is another matter but I am sure they are here.

COMMISSIONER LEMAN: They could have wonderful fights between them.

MR. HORNE-PAYNE: Well, not to become controversial about people, let us take one that is no longer with us but a type of man like the late Dal Grauer. I would say he would have been an

COMMISSIONER MACKINTOSH: Your proposal does not go so far as to suggest that the direction of the Bank should be transferred from a governor to a management committee, so to speak?

MR. HORNE-PAYNE: Well, indirectly I suppose it does, yes. Yes, it does really. I did not put that in but it does in effect mean that the directors would have to be directors in the fully accepted sense of the word.

THE CHAIRMAN: And the governor would be the servant of the board of directors.

MR. HORNE-PAYNE: The governor would be in the same position as the chairman of a board of directors.

THE CHAIRMAN: And the economic council, what sort of personnel would you envisage?

MR. HORNE-PAYNE: Well, I suggested -- and I [illegible] there are many valuable --

THE CHAIRMAN: You are not suggesting they should all be economists, are you?

MR. HORNE-PAYNE: No, I certainly am not - far be it from that, especially the [illegible] type but I think there should be one or two [illegible] economists, people highly practiced with experience in financing and banking, a combination of all the qualities and [illegible], they are not [illegible]. Whether they could be persuaded to serve is another matter but I am sure they are not.

COMMISSIONER [illegible]: They could have wonderful fights between them.

MR. HORNE-PAYNE: Well, not [illegible] controversial about people, let us take one that is no longer with us but a type of man like [illegible] [illegible] I would [illegible] he would have [illegible] on

excellent type. He was an economist, he was also a highly successful industrialist with a broad mind -- those types of people.

THE CHAIRMAN: Would you suggest they be full-time members of the council?

MR. HORNE-PAYNE: They most definitely should be full-time. I think they should be very highly paid in order to get the right people. In a sense, of course, the fact they were paid by the government would render them -- they would be in the sense civil servants but that type of person would not quite be in the same position in that sense as the governor, I feel. I do not want the board to be subservient to the government completely.

COMMISSIONER MACKINTOSH: Did you say the governor or government?

MR.HORNE-PAYNE: The government. That is why I suggested that if the directors in their capacity as an economic council might be required to report publicly twice a year because my suggestion will be that they will have to co-operate with the government as far as monetary policy is concerned. But at the same time I think I have put in the brief that if the governor should be protected from the actions of the Bank of Canada or vice versa the Bank of Canada must in a sense be protected from an irresponsible governor.

COMMISSIONER GIBSON: Mr. Horne-Payne, if these directors were full-time, what would they do? Would they have executive positions as well as consultative and advisory positions as directors?

MR. HORNE-PAYNE: No, I think it would be better if they did not. I think it would be better if they were full-time directors but some

excellent type. He was an economist, he was also a highly successful industrialist with a broad mind -- those types of people.

THE CHAIRMAN: Would you suggest they be full-time members of the council?

MR. HORNE-PAYNE: They most definitely should be full-time. I think they should be very highly paid in order to get the right people. In a sense, of course, the fact they were paid by the government would render them -- they would be in the sense civil servants but that type of person would not quite be in the same position in that sense as the governor, I feel. I do not want . . . to be subservient to the government completely.

SENATOR MACKINTOSH: Did you say the governor or government?

MR. HORNE-PAYNE: The government.

A. I suggested that if the directors in their capacity as an economic council might be required to report publicly twice a year . . . my suggestion will be that they will have to co-operate with the government as far as monetary policy is concerned. But at the same time I think I have put in the brief that if the governor should be protected from the actions of the Bank of Canada or vice versa the Bank of Canada must in a sense be protected from an irresponsible govern . . .

If these directors were full-time, what would they do? Would they have executive positions as well as consultative and advisory positions as directors?

MR. HORNE-PAYNE: No, I think it would be better if they did not. I think it would be . . . if they were full-time direc

corporations that some might have could be carried on.

COMMISSIONER GIBSON: They would have to have some specific interest; you could not have directors' meetings all the time?

MR. HORNE-PAYNE: No, but I think they could probably meet at least once a month. I [illegible] could travel the country, it would be their duty to be in touch with what is going on particularly in economics which I think would be very nearly a full-time job.

COMMISSIONER GIBSON: You see them as an economic council. Is this primarily as an economic council for the guidance of government and the central bank or is it primarily as a board for the Bank of Canada?

MR. HORNE-PAYNE: Primarily a board for the Bank of Canada but with a subsidiary duty to guide the government, to advise the government and to inform the country of their views on the economic situation.

COMMISSIONER GIBSON: Then, they would be expressing public views on matters of a good deal more than monetary policy. They would be talking about fiscal policy presumably, exchang e rate policy?

MR. HORNE-PAYNE: They do not necessarily have to talk about fiscal policy. You can point a thing out that inflation appears to be developing in such and such a situation. You do not necessarily have to turn around and say the government should do this or should do that but once you point it out then everybody becomes aware of it. I think we are dealing with a more informed public nowadays than we had

corporations that some might have could be [illegible]

[illegible]

[illegible]

to have some specific interest; you could not have [illegible] meetings all the time?

MR. HORNE-PAYNE: No, but I think they could probably meet at least once a [illegible] could travel the country, it would be their duty to be in touch with what is going on [illegible] in economics which I think would be very nearly a full-time job.

COMMISSIONER GIBSON: You see them as an [illegible] council. Is this primarily as an economic council for the guidance of government and the central bank or is it [illegible] as a board for the Bank of Canada?

MR. HORNE-PAYNE: [illegible] a board for the Bank of Canada but with a subsidiary duty to guide the government, to advise the government or to inform the country of their views on the economic situation.

[illegible]

be [illegible] public views on matters of a good deal more than monetary policy. They would be talking about fiscal policy presumably, exchange rate policy?

MR. HORNE-PAYNE: They do not necessarily have to talk about fiscal policy. You can point a thing out that inflation appears to be developing in such and such a situation. You do not necessarily have to turn around and say the government should [illegible] or should do that but [illegible] everybody [illegible] aware of it, [illegible] [illegible] public pressure than we had

20 or 30 years ago. In that sense I think the discussion between Mr. Coyne and the government probably had a very important effect, an informative effect on the country, made people aware of what it was all about.

COMMISSIONER GIBSON: But you cannot be doing that all the time. What I am concerned about is where do the people stand in the setup. Are they really directors of the Bank of Canada or an economic council giving advice?

MR.HORNE-PAYNE: Directors of the Bank of Canada but you could hardly be that unless you were studying economics all the time and trade and money influx and all the rest of it.

COMMISSIONER BROWN: In the case of a difference of opinion between this economic council and the government, what would happen?

MR. HORNE-PAYNE: That went through my head and I state that, I think, on page 8 under the Bank of Canada.

COMMISSIONER BROWN: What page?

MR. HORNE-PAYNE: B. 2.(e) where I said:

"The Board of the Bank of Canada should be responsible to the Minister of Finance for co-ordinating monetary policy with the Government's fiscal policy as well as for advising the said Minister on economic affairs. But, in order to maintain maximum independence for the Bank of Canada ..."

What I meant there was, rather periodically you have the present United States economic advisors making statements. Dhey are not necessarily controversial with government policy, but periodically

20 or 30 years ago. In that sense I think the discussion between Mr. Coyne and the government probably had a very important effect, an informative effect on the country, made people aware of what it was all about.

COMMISSIONER GIBSON: But you cannot be doing that all the time. What I am concerned about is where do the people stand in the setup. Are they really directors of the Bank of Canada or an economic council giving advice?

MR. HORNE-PAYNE: Directors of the Bank of Canada but you could hardly be that unless you were studying economics all the time and trade and money influx and all the rest of it.

COMMISSIONER BROWN: In the case of a difference of opinion between this economic council and the government, what would happen?

MR. HORNE-PAYNE: That went through my head and I state that, I think, on page 9 under the Bank of Canada.

COMMISSIONER BROWN: What page?

MR. HORNE-PAYNE: B. 2.(e) where I said:

> "The Board of the Bank of Canada should be responsible to the Minister of Finance for co-ordinating monetary policy with the Government's fiscal policy as well as for advising the said Minister on economic affairs. But, in order to maintain maximum independence for the Bank of Canada ...."

What I meant there was, rather periodically you have the present United States economic advisors making statements. They are not necessarily

they make statements about the situation in the United States, and sometimes on world affairs. If it is in conflict with government policy, you immediately have a nation to judge.

COMMISSIONER BROWN: Then what happens?

MR. HORNE-PAYNE: After all, all politics is a practice of what happens, and in that case government will be swayed by public opinion, and I think it should be.

COMMISSIONER BROWN: In other words, the Economic Council then starts calling the tune for government?

MR. HORNE-PAYNE: If it got to that pitch. I suppose it could get to that, and I suppose it could lead to an election or something, but I don't think that would be necessarily damaging. After all, under the present circumstances I gather that the Finance Minister is advised by a sort of economic council in the financial department, but the reports are seldom published. He acts, he conducts policy, and it is very hard under the present circumstances to agree whether the policy is right or wrong.

COMMISSIONER MACKINTOSH: It is very difficult under our form of government to have a Minister publicly advised as to policy and then ask him to explain why he is not following it. He is advised and makes his decision and supports his policy, and parliament is able to take contrary views and criticize it. To place him in the position of having the civil service on one side and parliament on the other is difficult.

MR.HORNE-PAYNE: It is difficult, but I don't see why it is impossible. After all, we have to look forward. We don't necessarily have to accept

they make statements about the situation in the United States, and sometimes on world affairs. If it is in conflict with government policy, you immediately have a nation to judge.

COMMISSIONER BROWN: Then what happens?

MR. HORNE-PAYNE: After all, all politics is a practice of what happens, and in that case government will be swayed by public opinion, and I think it should be.

COMMISSIONER BROWN: In other words, the Economic Council then starts calling the tune for government?

MR. HORNE-PAYNE: If it got to that pitch, I suppose it could get to that, and I suppose it could lead to an election or something, but I don't think that would be necessarily damaging. After all, under the present circumstances I gather that the Finance Minister is advised by a sort of economic council in the financial department, but the reports are seldom published. He acts, he conducts policy, and it is very hard under the present circumstances to agree whether the policy is right or wrong.

COMMISSIONER MACKINTOSH: It is very difficult under our form of government to have a Minister publicly advised as to policy and then ask him to explain why he is not following it. He is advised and makes his decision and supports his policy, and parliament is able to take contrary views and criticize it. To place him in the position of having the civil service on one side and parliament on the other is difficult.

MR. HORNE-PAYNE: It is difficult, but I don't see why it is impossible. After all, we have to look forward. We don't necessarily have to accept

everything that has happened before as being perfect. There is another way of saying if on unknown economic advice the government adopts a certain policy proved to be wrong the whole country suffers. I don't see this is necessary.

COMMISSIONER MACKINTOSH: Presumably the government also suffers. There is this difference in the United States: The economic advisors advise the President and not the Congress.

MR. HORNE-PAYNE: That is quite true.

COMMISSIONER MACKINTOSH: Congress is left entirely free.

MR. HORNE-PAYNE: That is quite true, but at the same time -- not to the same extent, I admit -- but every now and again, periodically the Governor of the Bank of England expresses a view very diplomatically -- and the type of director, I would suggest, would be a diplomat.

COMMISSIONER MACKINTOSH: It is more difficult to find 7 diplomats than one.

COMMISSIONER LEMAN: Particularly seven who agree.

MR. HORNE-PAYNE: He always has the privilege of deciding if he does not agree.

COMMISSIONER MACKINTOSH: May I ask a question or two about your views on the operation of the Bank: You ask for a bank rate -- an official bank rate, and I take it you attach importance to the bank making a publicly announced decision from time to time that the bank rate should be thus and so?

MR. HORNE-PAYNE: Yes.

COMMISSIONER MACKINTOSH: Do you look at this also as the lending rate of the bank?

MR. HORNE-PAYNE: You are talking about

the lending rate of the chartered banks, are you?

COMMISSIONER MACKINTOSH: No, I was talking about the Central Bank.

MR. HORNE-PAYNE: Well, I feel if there is a fixed bank rate -- fixed periodically -- that that rate should be effective on the entire financing of thecountry. In other words, if there is to be a deflationary policy a fixed bank rate is pushed up, and it would have to go very high in present circumstances due to the taxation effect on corporate borrowing, but it would have to go very high, and if the chartered banks were relievedof the present limit on their lending rates, presumably their rate would go far higher still and you would have restrictive monetary policy, which we cannot have under present circumstances.

COMMISSIONER MACKINTOSH: This is to some extent a digression; this wide movement of rates stretching into long-term securities may explain why long-term rates have not responded to a downward movement because the investment character of long-term bonds has changed?

MR. HORNE-PAYNE: It could very easily.

COMM[illegible]: There are by no means the marketable securities there were when they were at a very heavy discount in a great many portfolios?

MR. HORNE-PAYNE: That is quite true.

[illegible]: What other steps do you think are necessary to make the whole pa[illegible] of interest rates flexible in response to bank rates?

MR. HORNE-PAYNE: First of all, the bank rate -- as I say, we have dealt with that.

The next thing is to arm the Bank of Canada, in my view, that -- well, it probably is already largely armed, but I don't think uses all its power effectively, to force the chartered banks' rates to respond more than they do. We all know from the time when the maximum bank rate in 1959 -- when it went up to 6per cent -- the chartered banks were restricted to a 6 per cent lending rate.

COMMISSIONER MACKINTOSH:: You think they should remove that restriction?

MR. HORNE-PAYNE: Perhaps I should say I know that very high rate wasn't for a deflationary purpose, but say you did wish to deflate and the bank rate went up to 6-1/2 or 8 per cent -- the chartered banks' prime rate -- 8 per cent -- the chartered banks would probably hop up to 9 or 10 percant, maybe, and then it would have been restrictive, but similarly there isn't the same power to get the chartered banks' lending rates down, as we have witnessed fairly recently -- or, if the power is there, then the Bank of Canada cannot have used it. It makes very little sense to me, if I may say so, to have, say, 2-1/2 per cent so-called bank rate and prime lending rates up to 5-1/2 per cent.

COMMISSIONER MACKINTOSH: What measures could the Bank take to bring those rates down?

MR. HORNE-PAYNE: I think the chartered banks should have much greater facilities at the Bank of Canada, for one thing.

COMMISSIONER MACKINTOSH: The chartered banks, in my hasty reading of recent statistics, have quite a lot of cash in liquidity at present.

MR. HORNE-PAYNE: They have, yet the rate is still, say, 5-1/2 per cent.

The next thing is to arm the Bank of Canada, in my view, that -- well, it probably is already largely armed, but I don't think uses all its power effectively, to force the chartered banks' rates to respond more than they do. We all know from the time when the maximum bank rate in 1953 -- when it went up to 6per cent -- the chartered banks were restricted to a 6 per cent lending rate.

[illegible]

remove th[illegible] restriction?

MR. HORNE-PAYNE: Perhaps I should say I know that very high rate wasn't for a deflationary purpose, but say you did wish to deflate and the bank rate went up to 6-1/2 or 8 per cent -- the chartered banks' prime rate -- 8 per cent -- the chartered banks would probably hop up to 9 or 10 percent, maybe, and then it would have been restrictive, but similarly there isn't the same power to get the chartered banks' lending rates down, as we have witnessed fairly recently -- or, if the power is there, then the Bank of Canada cannot have used it. It makes very little sense to me, if I may say so, to have, say, 2-1/2 per cent so-called bank rate and prime lending rates up to 5-1/2 per cent.

COMM[illegible]: What measures could the Bank take to bring those rates down?

MR. HORNE-PAYNE: I think the chartered banks should have much greater facilities at the Bank of Canada, for one thing.

COMMISSIONER [illegible]: The chartered banks, in my hasty reading of recent statistics, have quite a lot of cash in liquidity at present.

MR. HORNE-PAYNE: They have, yet the

[illegible]

COMMISSIONER MACKINTOSH: Well, we have got the horse there: How can we make him drink? You argue generally for a flexibility throughout the whole bank rates?

MR. HORNE-PAYNE: Yes. I go back to Great Britain: It has worked for years very effectively and more so even now. If the bank rate alters noticeably in London, the whole monetary world responds within five minutes practically. It will seep right through to the public and to industry in a matter of weeks, or at least a few months. But here that is not the case in the same way, is it?

COMMISSIONER MACKINTOSH: No, definitely not.

MR. HORNE-PAYNE: So, in that case the government also is frustrated because in so far as its policy is affected by monetary policy it loses the power to influence the economy also.

COMMISSIONER MacKEEN: Would you suggest tying the prime rate of the chartered banks in some form to the flexible rate of the Central Bank?

MR. HORNE-PAYNE: Would you repeat that?

COMMISSIONER MacKEEN: Would you suggest tying in in some form the prime rate of the chartered banks with the flexible rate that you suggest for the Bank of Canada?

MR. HORNE-PAYNE: Yes, I would, but I would like to do it through influencing them rather than actually tying them. In that way the Bank of Canada would practically become a dictator. It should influence the chartered banks' lending rates.

COMMISSIONER MacKEEN: Well, there is a spread between the Bank of England rates and the

chartered bank rates there that is recognized..

MR. HORNE-PAYNE: Oh, yes.

COMMISSIONER MacKEEN: Would you have some formula?

MR. HORNE-PAYNE: I think you might agree, very broadly speaking, with minimum bank rate the prime lending rate is probably somewhere around about one per cent over bank rate. At maximum bank rate the prime rate is probably about 2 per cent over bank rate in most countries except here.

COMMISSIONER GIBSON: You would like to make the savings deposits rates more flexible with the prime lending too, I take it?

MR. HORNE-PAYNE: Yes, I would because there is another weakness, as I see it. Here the the chartered banks, having very little recourse to the Bank of Canada, are so largely dependent on their savings for their source of loans: I think roughly 60 per cent.

COMMISSIONER GIBSON: Yes, and I would like to pursue this, because it is here that the problem arises in competing for funds. If the chartered banks' savings rate is reduced substantially, their competitive position in relation to other banks is affected?

MR. HORNE-PAYNE: Of course, it is very difficult to talk about Canada in the same breath as the money market in London, because here the components of the money market are so much fewer than they are in London, and hence, in my view, being fewer they are individually far stronger. The core of the money market in London is the the bill broker.

COMMISSIONER GIBSON: How many of them?

DR. HOLT-DAVIS: I think you might agree, very broadly speaking, with minimum bank rate the prime lending rate is probably somewhere around about one per cent over bank rate. At maximum bank rate the prime rate is probably about 2 per cent over bank rate in most countries except here?

COMMISSIONER GIBSON: You would like to make the savings deposits rates more flexible with the prime lending too, I take it?

[illegible]

there is another weakness, as I see it. Here the [illegible] chartered banks, having very little recourse [illegible] of Canada, [illegible] largely dependent on their savings for their source of loans. I think roughly 60 per cent.

COMMISSIONER GIBSON: Yes, and I would like to pursue this, because it is [illegible] the [illegible] competing for funds. If the chartered banks' savings rate is [illegible] substantially, their competitive position in relation to other banks is [illegible]?

[illegible] Of course. It [illegible] difficult to talk about Canada in the same breath as [illegible] in London, [illegible] components of the money market [illegible] than they are in London, and [illegible], in my view, being fewer they are individually [illegible]. [illegible] of the money market [illegible] in the

MR.HORNE-PAYNE: In my days about five. I think there are eight or nine now. Next to them come the discount houses, which we don't have.

COMMISSIONER GIBSON: That is very different.

MR. HORNE-PAYNE: Oh, yes, and next to them you have your merchant banks, which we don't have, and then you have your joint stock banks, etc. With the result that all those -- so many more components to the money market, it is a much more competitive situation, so your interest rates are more competitive and they do respond automatically more, where here there is no such thing as a bill broker in the same sense, and there is no such thing as a discount house in the same sense. The chartered banks do a lot of that. Maybe at the risk of getting my head chopped off, maybe our chartered banks are a little too powerful in the sense there is no competition for them, and that may be to some extent the reason why prime lending rates etc. do not respond so much to Bank of Canada actions.

COMMISSIONER BROWN: I think Mr. Gibson's point was that there is competition now in this field. You have got the near banks, trust companies, buy backs on the money market, which is now a considerable feature.

MR. HORNE-PAYNE: Yes, but you still don't have the competition that you have, for instance, in England or even in New York for that matter.

COMMISSIONER GIBSON: I would not express a view on that, Mr. Horne-Payne, but I would like to explore a little with you your view about how a restraining monetary policy works, because

in your statement the emphasis is very much on the prime lending rate of the banks as the means through which there is an easing or a restraining of credit.

MR. HORNE-PAYNE: That is true.

COMMISSIONER GIBSON: It does seem to me there are many other directions in which this works, and I would like to hear your views on this. For example, the willingness of banks to increase lines is much greater when money is easier than when it is tight. The willingness of banks to go into field in which they are not normally accustomed to lending is much easier when money is easier than when it is tight. They compete very vigorously on the size of the line of credit?

MR. HORNE-PAYNE: Yes.

COMMISSIONER GIBSON: Thinking of other things, you have your bond market rates, your treasury bill rates which in turn are closely related to your money market rates which are alternate rates of interest for borrowing for quite a few people. There is the fact in this area there is some effect working out into the longer rates, although this would depend very much on the circumstances, as Dr. Mackintosh was suggesting; but when you do get sizeable changes in the bond market you get substantial changes in capital values, and this increases or decreases the willingness of people to use assets. In other words, it decreases or increases their willingness to become liquid or otherwise.

MR. HORNE-PAYNE: Yes.

COMMISSIONER GIBSON: It seems to me there are a great variety of factors at work here.

There is also the general matter of expectations and people in this country look across the border to see what is going on. They see what the Central Bank is saying. There is a community of discussion going on. We particularly watch the United States. We have in any given time certain expectations which change courses of action. I want to suggest to you there are a great many ways in which a restrictive monetary policy works?

MR. HORNE-PAYNE: I could not agree more with that. I have dealt with all that side of it, and it is perfectly true. I simply say in so far as the central banking policy is concerned, monetary policy most recently has been brought out by the Radcliffe Report in England that at the best all monetary policy can do is influence -- not enforce -- of a type drastic enough it can enforce -- but otherwise it is influence.

COMMISSONER GIBSON: You think the Central Bank ought to be guided by all these other ways in which restraint works?

MR. HORNE-PAYNE: Yes, and I think highly qualified directors would have their fingers on all these conditions. For that matter, even public psychology is a factor -- as you say, "how to make the horse drink".

COMMISSIONER GIBSON: I didn't associate myself with that idea.

MR. HORNE-PAYNE: To some extent that is happening now. We have a very tight money supply, but as far as I am concerned I cannot see any inflated demand resulting from it.

COMMISSIONER GIBSON: You really believe a deliberate bank rate policy on the part of the

There is the [illegible] of speculators and people in this country [illegible] to see what is going on. They see what the Central Bank is saying. There is a community [illegible] going on. We particularly watch the United States. We have [illegible] given them certain expectations which change courses of action. I want to suggest to you there are a great many ways in which a [illegible]

MR. HORNE-FANE[illegible]: I could not agree more with that. I have dealt with all that side of it, and it is perfectly true. I [illegible] say in so far as the central banking policy is concerned, [illegible] policy most recently has been brought [illegible] the [illegible] in England that at [illegible] all monetary policy can do is influence -- not enforce -- [illegible] enough to enforce -- but [illegible] it is influence.

[illegible]

Central Bank ought to be guided by all these other ways in which restraint works?

MR. HORNE-FANE[illegible]: Yes, and I think highly qualified directors would have their finger, on all these conditions. For that matter, even [illegible] is a factor -- as you see, "how to raise the honest dollar".

[illegible]: [illegible] myself with that idea.

MR. [illegible]: To some extent that is happening now. We have [illegible] but as far as I am [illegible]

Central Bank would have a significant effect on expectations and on the general ---

MR. HORNE-PAYNE: Yes, I do because if everything was influenced it would be more influenced by -- well, if the Bank of Canada one Thursday suddenly said, "The bank rate is 2 per cent more or less than it was before" it would mean something to the entire country -- to the individual, even. It tells them if the bank rate shoots up a great deal -- it does in England: It tells the fellow, "You are not meant to be spending so much and not meant to be borrowing".

COMMISSIONER GIBSON: You don't think fluctuations in the bank rate are regarded as being significant -- or do you?

MR. HORNE-PAYNE: No, I don't, actually, because for one thing with this weekly fluctuating rate you have really got to go, sometimes, for months to indicate trends at all. I would rather hesitate right now to guess what the trend of rates is right [illegible].

MR.HORNE-PAYNE: A lot of people I know expect a hardening of interest rates towards the end of the year. I did not see any reason why interest rates should harden. We have an excess of productive capacity which suggests that investment is not likely to increase substantially until this is used up or is more greatly used than it is now. There is no particular reason as far as I can see to see excess demand for money for investment or for spending.

COMMISSIONER GIBSON: I am not expressing an opinion on this but I would merely comment that some people do feel that the existing type of bank

rate which is automatically tied to the treasury bill rate has certain advantages in that the Central Bank is in a position to make its influence felt through the treasury bill market where it is a major factor and does not put itself in what sometimes is a very embarrassing position of having to follow the market up or down which may be pulled up or pushed down by what is going on in the country.

MR. HORNE-PAYNE: I agree that can happen but we do not live in a perfect world. That could happen and has happened in other countries.

COMMISSIONER GIBSON: But on balance you would prefer a consciously affected rate?

MR. HORNE-PAYNE: I would because I feel that the very effect of having it and , of course, you have got the time when the bank would have to establish its prestige in that way over a period of time but eventually you get to the position where the bank rather leads -- it is rather like the sergeant-major saying "Attention", and when he says, "Attention", everybody springs to attention. To some extent I think it has that effect.

Excuse me one moment, I would like to point out that someone was right, I think, in saying that we are the only country in the world which does not have a fixed bank rate.

COMMISSIONER MACKINTOSH: I wanted to ask you about another matter. You say in the latter section in the banking operations the trust companies are competitive with the chartered banks and therefore they ought not to be under the control of the Bank of Canada. I would be prepared for you to say therefore they should be under the control of the Bank of Canada if they are in the

same business.

MR. HORNE-PAYNE: Well, the main reason I think why I would like them not to be, if it is possible, is because I am a great believer in competition and I do not want everything under control of somebody. I could hardly conceive -- the trust companies have never competed with the chartered banks for funds and also in lending and it is very difficult for me to foresee responsible trust companies keeping their rates very much out of line with what the chartered banks are doing and hence what the Bank of Canada wants to do.

You can borrow now for slightly less from a trust company than you can from a chartered bank, but only slightly less. At the same time they will tend to give you slightly more for deposits, but only slightly more. I cannot see a responsible trust company getting out of line with the chartered banks.

COMMISSIONER MACKINTOSH: Of course in neither case does the Bank of Canada dictate the rates. The question is whether the present terms of competition unduly favour these near banks by allowing the opportunities without the same responsibilities.

MR. HORNE-PAYNE: They may in some ways and I think with particular reference more than to the trust companies, I think it is particularly referable to the finance companies but my view has always been that short-term financing, particularly consumer financing and one thing and another should be handled directly by the government -- the lending rates, certainly. But say you have excessive demand being financed by these finance companies, particularly the consumer people, then I think it is up to the

government to settle by regulation things like percentages of down payments, maximum charges on loans and things that. We did that after the war if I remember rightly.

COMMISSIONER MACKINTOSH: I should not say this in the presence of the Chairman but my impression is that that is generally viewed as beyond the powers of the Federal Government. It was done under the War Measures Act when it was done.

MR. HORNE-PAYNE: Yes.

COMMISSIONER MACKINTOSH: And there would be grave difficulty in doing it. That is done in England in the Board of Trade but they have a unitary government. The task of co-ordinating the chartered banks is a little less difficult than the task of co-ordinating ten provincial governments.

MR. HORNE-PAYNE: I do not ignore the point. I appreciate the point that what you call these near money institutions are very largely on their own and do what they like and I am somewhat dubious whether even very high bank interest rates would have a great deal of effect on them because after all a finance company, if it has to pay 6 per cent or 7 per cent for loans, it can make so much more anyway that it has only a small influence. That is why I feel the only way probably to control them effectively would be through regulation. I think you would have to have a very , very high interest rate before you really could effectively restrict consumer financing.

THE CHAIRMAN: Any more questions?

COMMISSIONER GIBSON: Mr. Horne-Payne, in this section on the Bank of Canada, page 13, you seem to put quite a little emphasis on the Bank of

Canada bearing the reserve requirements for the chartered banks. This, of course, is a power which, as you know, they have. I do not think it has ever been exercised?

MR,HORNE-PAYNE: No.

COMMISSIONER GIBSON: But would you mind saying why you put so much emphasis on this as opposed to their general way of working?

MR. HORNE-PAYNE: Because I look upon it as one of several weapons that could be quite powerful if they resorted to it. I suppose that is more developed in the United States than any other country practically but it is very effective.

COMMISSIONER GIBSON: Of course, with a relatively few banks here all of whom normally work fairly close to their cash position, open market policy is, I would think, generally effective, at least it is quite possible to see the moment their reserves decrease that the banks get reserves very quickly.

MR. HORNE-PAYNE: Yes, but it is hardly ever resorted to.

COMMISSIONER GIBSON: All I am talking about there was the open market policy.

MR. HORNE-PAYNE: Yes it is but you mentioned another thing, open market operations. To be really effective I think they have to be known much more. I hardly look upon open market conditions at the moment as being open. I don't know sitting in Vancouver here really very much what the Bank of Canada is doing over a market operation. I can find out from a bond dealer probably but the public in general and practically nobody in the far west knows what is happening along those lines.

It does have a great deal to do with future interest rates, of course.

The same thing with government operations. There is very little known about government operations, funding and things like that. That is why I suggested the people have some means of being informed as to the way in which such operations are conducted openly on a stock and bond exchange.

COMMISSIONER GIBSON: Would you see any merit in changing reserve requirements as opposed to open market operations? This is really what I am getting at.

MR. HORNE-PAYNE: Well, I really do not think to any extent that we can internally choose one weapon over another but I feel they are all weapons but insufficiently used. A certain situation might arise whereby some drastic policy seemed appropriate, in which case although open market operations are perhaps necessary alterations of the reserve requirement might be effective.

COMMISSIONER BROWN: You do not think the weekly reports of the Bank of Canada showing their open market position are sufficient?

MR. HORNE-PAYNE: They are not published.

COMMISSIONER BROWN: They are published every Wednesday.

MR.HORNE-PAYNE: But they are not available. The government do not say anything about prices or anything like that.

COMMISSIONER BROWN: Anybody interested, may have them on their desk on Friday.

MR. HORNE-PAYNE: But there again it is like leading the horse to water. I feel -- again I come back to London over this. An interesting

[illegible] eat deal to do with future [illegible] rates, of course.

The same thing with government operations, there is very little known about government operations, funding and things like that. That is why I [illegible] [illegible]

COMMISSIONER GIBSON: Would you see any merit in changing reserve requirements as opposed to [illegible]

[illegible]

[illegible] think to any extent that [illegible] one weapon over another but I feel they are [illegible]

[illegible] operations, in which [illegible] [illegible] are perhaps necessary alternatives to the case of requirement [illegible]

COMMISSIONER [illegible]: You do [illegible] the weekly reports of the Bank of Canada [illegible] their open market position are sufficient?

[illegible]: They are [illegible]

[illegible]

[illegible] do not say anything about prices or anything like that.

[illegible]

[illegible]

thing which happened while I was on holiday just recently. I read in a copy of The Economist that came through that two weeks ago a government broker ceased selling a certain distribution and he did not appear in the House for two days and immediately the gilt-edged market responded once they knew the top was off that particular security they responded; in other words, everybody was watching out. Here everybody is not watching. Do you see what I am trying to get at?

COMMISSIONER BROWN: Except this information is readily available on the street in Toronto.

MR.HORNE-PAYNE: But you have to get it. That is the point I am trying to bring up . The country on the whole market is not in the same way conscious of what is happening.

COMMISSIONER MACKINTOSH: Maybe we should educate the securities people.

COMMISSIONER BROWN: I grant you it is not as available out here on day-to-day operations of the Bank of Canada as much as it is in Toronto and Montreal.

MR. HORNE-PAYNE: But we are still a part of Canada, aren't we?

COMMISSIONER BROWN: But the fact does remain that the information is available day-te-day and is also available cross country in weekly reports.

MR.HORNE-PAYNE: I suppose the reason for that is the fact of the enormous centralization of finance in eastern Canada. I have mentioned to you here about Montreal or Toronto but I would be much more astounded to see that information in Vancouver. That is something else I have treated with in my brief; the huge concentration of the

money market in the east.

COMMISSIONER BROWN: This is a separate question from the one we are discussing.

MR. HORNE-PAYNE: But it rather leads to it. If I live in Toronto or Montreal I would know much more of what was going on in those bonds and things.

COMMISSIONER MACKINTOSH: You would be surprised.

MR. HORNE-PAYNE: But is that right, Mr. Mackintosh, in a huge country like this?

COMMISSIONER MACKINTOSH: Is what right?

MR. HORNE-PAYNE: That parts of it should be so relatively little informed and really influenced by what happens there.

COMMISSIONER MACKINTOSH: I am not sure of the point you are making -- is uninformed or uninterested?

MR. HORNE-PAYNE: Well, probably both.

COMMISSIONER MACKINTOSH: Well, I am in the business of believing that people should be widely informed.

MR. HORNE-PAYNE: I agree.

COMMISSIONER BROWN: On this question of east and west you make comments in your paper that there is a flow of savings from the west to the east which is not reciprocal; in other words, it does not come back. Have you any evidence to show this because the last statistics that have been made available show exactly the opposite. I wonder if you have any evidence.

MR. HORNE-PAYNE: No, I have not got figures. Thatis one of the things I apologise for. I have been unable to do research on these things.

COMMISSIONER BROWN: This is a separate question from the one we are discussing.

MR. HORNE-PAYNE: But it [illegible] to it. If I live in Toronto or Montreal I don't know much more of what was going on in those [illegible] and things.

COMMISSIONER MACKINTOSH: You would be [illegible].

[illegible]

Mr. Mackintosh, in a huge country like this?

COMMISSIONER MACKINTOSH: In what way?

MR. HORNE-PAYNE: That part of it should be so relatively little informed and really [illegible] by what happens there.

COMMISSIONER MACKINTOSH: I am not sure of the point you are making -- is uninformed or uninterested?

MR. HORNE-PAYNE: Well, probably both.

COMMISSIONER MACKINTOSH: Well, I am in the business of believing that people should be [illegible].

MR. HORNE-PAYNE: I agree.

COMMISSIONER BROWN: On the question of east and west you make comments in your paper that there is a flow of savings from the west to the east which is not reciprocal: in other words, it does not come back. Have you any evidence to show this because the last statistics that have been made available show exactly the opposite. I wonder if you have any evidence.

MR. HORNE-PAYNE: No, I have not got figures. That's one of the things I apologise for. I have been unable to do research on these things.

That varies with periods of time.

COMMISSIONER BROWN: I think it was pretty steadily in the opposite direction.

MR. HORNE-PAYNE: Do you really?

COMMISSIONER BROWN: Yes.

COMMISSIONER MACKINTOSH: Aren't there two things, the flow of savings east in the sense of going to dealers' institutions in the east but there is the flow of investment west into enterprise and mortgages?

MR. HORNE-PAYNE: Well, there certainly was not in 1947, Mr. Mackintosh.

COMMISSIONER MACKINTOSH: Well, I cannot recall that from memory.

MR. HORNE-PAYNE: I have my mind on the oil and gas industry when they,practically speaking, could not get a penny in the east. I know they tried very hard.

COMMISSIONER BROWN: We are talking about the over-all feature rather than a particular industry.

MR. HORNE-PAYNE: Yes. I do feel that the United States possibly are in a little better position than we are in those ways, particularly in the west through having greater control over the sources of funds developed in the west and they have their own state banks etc., which we have not. Please do not misunderstand me, and think I am criticizing that the banks are not co-operating because they are.

COMMISSIONER BROWN: I think that is one of the fields in which I think there has been some indication that as far as the banks are concerned that more money comes here than goes from here.

MR.HORNE-PAYNE: That is very interesting. I suppose certainly in periods of demand it does; in other words, we cannot finance all our enterprises from our own sources of funds in the west.

But at the same time would not you gentlemen assume that there is an automatic tendency for funds to be invested close to home first before they will go farther afield? I think it is almost automatic.

I fully admit I might be ultra conscious of the failure of eastern Canada to go into this huge oil and gas business when it started in the west.

COMMISSIONER BROWN: There was one other thing, Mr. Chairman. I wonder if I could ask Mr. Horne-Payne his thoughts on the advantages or disadvantages or advisability or otherwise of an S.E.C. type of operation for Canada rather than the various provincial securities acts. This is not covered in your brief.

MR. HORNE-PAYNE: I would hate to see it myself. As to whether it is necessary is another matter. I would sort of hate to see it. It all comes back, really, to the prestige of a stock exchange and things like that. We could hardly operate, I suppose, as they do inEngland because we have more strange characters around the place which are lacking in England. I am talking now of these high powered American salesmen that come over here and create havoc down there for which the S.E.C. is the main restraining influence and because of that our stock exchange has tended to lack the prestige perhaps of their counterparts in England.

MR. PAYNE: That is very interesting. I suppose certainly in periods of demand it does; in other words, we cannot finance all our enterprises from our own sources of funds in the west.

But at the same time would not you gentlemen assume that there is an automatic tendency for funds to be invested close to home first before they will go farther afield? I think it is almost [illegible]

I fully admit I might be ultra critical of the failure of eastern Canada to go into this huge oil and gas business when it started in the west.

COMMISSIONER BROWN: There was one other thing, Mr. Chairman. I wonder if I could ask Mr. Horne-Payne his thoughts on the advantages or disadvantages or advisability or otherwise of an S.E.C. type of operation for Canada rather than the various provincial securities acts. This is not covered in your brief.

MR. HORNE-PAYNE: I would hate to see it myself. As to whether it is necessary is another matter. I would sort of hate to see it. [illegible] back, really, to the prestige of a stock exchange and things like that. We could hardly operate, I suppose, as they do in England because we have more strange [illegible] which are lacking in England. I am thinking now of these high powered American men that come over here and create havoc down there for which the S.E.C. is the main restraining influence and [illegible] stock exchange has tended to [illegible] of their correct [illegible]

In this sense I cannot conceive of anybody in England other than a fellow who has got $5 in his pocket -- I cannot conceive that he would even consider buying securities from anybody except through a legitimate stock broker. It is practically impossible to conceive of it. Here apparently a lot of them will buy from any Tom, Dick and Harry that comes to their doorstep. So we are dealing with a completely different situation and that situation, I think, led to the S.E.C. in the United States and may lead to it here but I would hate to see it because it is another form I prefer to get away from all controls wherever possible. I think our Provincial thing works very well. We might co-operate a bit more.

COMMISSIONER LEMAN: Mr. Horne-Payne, I gather that in so far as the bond market is concerned you would like to improve the market for bonds and the consciousness of the people with regard to yields etc.?

MR. HORNE-PAYNE: Yes.

COMMISSIONER LEMAN: And you suggest one way to do this would be to have bonds traded on stock exchanges rather than over the counter as they are now?

MR. HORNE-PAYNE: Yes.

COMMISSIONER LEMAN: Are you aware of the fact that this has been tried in the United States?

MR. HORNE-PAYNE: No, I wasn't aware of that fact.

COMMISSIONER LEMAN: Well, bonds are listed, even corporate industrials are listed on the U.S. stock exchanges.

MR. HORNE-PAYNE: Oh yes, I see what you mean there; I agree there.

COMMISSIONER LEMAN: And yet it seems that the volume of trading on exchanges as against over the counter is negligible: Would you suggest it be done ---

MR. HORNE-PAYNE: If they could not be traded over the counter, they would have to be traded in exchanges.

COMMISSIONER LEMAN: Would you suggest a regulation to prevent over the counter trading?

MR. HORNE-PAYNE: Yes, that is my whole point, that the exchange should be the only market except in cases of a new issue -- that is another matter altogether, of course. I think it creates a market in the real sense of the word "market" much more so than the present system.

COMMISSIONER LEMAN: You suggest nobody should carry inventories?

MR. HORNE-PAYNE: I don't say they should not, but that they would not have to in the same way.

COMMISSIONER LEMAN: How would the exchange operate, do you suggest?

MR. HORNE-PAYNE: The stock brokers do not carry large inventories of shares and things. They may take positions here and there, but generally speaking does not have to carry large inventories of shares. I see no particular reason why a bond dealer should have to do that.

COMMISSIONER LEMAN: You refer to the London market, and there are two things you don't mention: One is the tremendous position of the jobbers, particularly in the guilt edge market in

London.

MR. HORNE-PAYNE: I agree, but they don't necessarily carry very large inventories.

COMMISSIONER LEMAN: The guilt edge market could not operate without the jobbers carrying inventories.

MR. HORNE-PAYNE: Certainly they do, but their inventories are very short-term things; in other words, if there is a demand for certain bonds, well, the jobber ups his price to buy in.

COMMISSIONER LEMAN: The second thing you don't mention is that on the London Stock Exchange, while the prices are quoted and the transactions are put up, the volume does not appear.

MR. HORNE-PAYNE: That is quite true. That is a great weakness over there. I agree we have a far better system of reporting. The North American system of reporting share transactions is far superior to theirs. Therefore, I think if the same system was made applicable to bonds, we would be better off still.

COMMISSIONER BROWN: This brings up one further question, and that is you indicate that this should be in Toronto or Montreal. Do you imply from that you are in favour of a national stock exchange rather than regional stock exchanges?

MR. HORNE-PAYNE: Oh, where do you see that?

COMMISSIONER BROWN: Perhaps I am taking you out of context. You say at page 24 F. 2. b:

> "In order to render Government 'open market operations' in fact open they should be conducted on the principal Bond and Stock Market either in Montreal

or Toronto."

MR. HORNE-PAYNE: Oh, the government -- yes, the government. You could not have a government broker in each stock exchange all the way through Canada any more than they have one in England in Manchester or Glasgow. The government obviously operates through a Central Stock Exchange.

COMMISSIONER BROWN: I am sorry ---

MR. HORNE-PAYNE: Why I said Montreal or Toronto was because I did not wish to get involved in the contest between the two as to which is the central market.

COMMISSIONER BROWN: Will you let us have your comments on the possibility or otherwise of a Central Stock Exchange with perhaps different floors operating at different times rather than separate stock exchanges?

MR. HORNE-PAYNE: No, I would not like to see any one single national stock exchange or bond exchange. I do feel the government would have to operate through one central one, but for the rest I feel that the remaining stock exchanges have not been developed sufficiently, and that is why I made some suggestions such as trying to get much greater listings, particularly big national companies on all the stock exchanges, so as to try to discourage the huge concentration which I think is developing -- the huge concentration into one centre in the east. After all, there is almost as big a market in , say, Glasgow as there is in London, or in San Francisco as there is in New York, for so many companies which we don't have here.

THE CHAIRMAN: Thank you very much, Mr. Horne-Payne. It has been a very provocative

and interesting and useful discussion.

MR. HORNE-PAYNE: I am afraid I was born that way, Mr.Chairman.

THE CHAIRMAN: We are very much indebted to you.

MR.HORNE-PAYNE: I was very honoured you should ask me to come at all.

THE CHAIRMAN: That concludes our public hearings in Vancouver. The Commission will now adjourn the public hearings until 9.15 a.m. on Monday, March 19th in Edmonton, Alberta, in Courtroom No. 1, The Court House. Our first witness at that time will be the Honourable E.C. Manning, Premier of Alberta.

I wish to express the pleasure of the members of this Commission at having been in Vancouver during the better part of this week, and we wish to thank all the witnesses who have come before us for their useful proposals and their co-operation. We shall now adjourn.

---Adjournment.

Royal Commission
on
Banking and Finance

Hearings
held at

Vancouver

Vol. 4A

Date. March 16, 1962

Official Reporters
F. J. Nethercut and R. J. Young
Toronto, Ont.

VOLUME 4A

INDEX

From:- John R. Horne-Payne,
424 Burrard Street,
Vancouver, B.C.,
9th February, 1962

To The Commissioners,
The Royal Commission on Banking and Finance,
P.O. Box 1502,
Postal Station "B",
Ottawa, Ontario

Gentlemen:

The following conclusions derive from subsequent argument which I have the honour to submit in this brief. It should be stressed that the writer submits this brief in his personal capacity and it does not necessarily represent the views of any of his business associates.

All figures mentioned herein are taken from the Bank of Canada's Monthly Statistical Summaries.

A - CONCLUSIONS

Conclusions are shown below with reference to the paragraphs in which they appear.

Reference -

B - THE BANK OF CANADA - ORGANIZATION

B.2. a. The various Bank Acts should be amended to provide for a permanent Economic Council to serve the Bank of Canada and the Government

b. This Council should comprise full-time qualified non-political Directors of the Bank of Canada.

c. Directors should be 6 in number additional to the Governor and Deputy Governor of the Bank of Canada.

d. Directors, excepting the Deputy Governor, should retire in rotation annually to provide maximum 7-year appointments.

e. The Board of the Bank of Canada should be made directly responsible to the Minister of Finance for coordinating monetary policy with Government's fiscal policy, but the Board should report publicly to the nation semi-annually on economic affairs.

[illegible]

The following [illegible]

[illegible]

All figures [illegible]

[illegible]

Conclusions [illegible] the [illegible]

in which they appear.

Reference [illegible]

N.2 a. The national [illegible]

[illegible]

[illegible] Congress [illegible]

b. [illegible]

political [illegible]

c. There [illegible]

Governor and [illegible]

d. Negroes [illegible]

[illegible]

[illegible]

e. The [illegible]

[illegible]

[illegible] policy [illegible]

[illegible]

[illegible]

Reference -

C - BANK OF CANADA - OPERATION

C.5. a. Bank rate should be periodically fixed by the Bank of Canada whereby it can both indicate and force economic intentions.

C.6. The Bank of Canada should be given wide authority to vary Chartered Banks' reserve requirements, liquidity ratios, and to exert maximum pressure on Chartered Banks' lending rates through open market operations, and should also be willing to discount Chartered Banks' Bills.

D - CHARTERED BANKS

D.1. a. The legal maximum limit on Chartered Banks' lending rates should be removed.

b. Chartered Banks should be given greater resort to loan and discount facilities with the Bank of Canada.

D.2. a. Chartered Banks might be encouraged to expand profitable business in unsecured call loans to compensate for any profit squeeze resulting from their prime lending rates being forced to reflect minimum Bank Rates.

D.3. Chartered Banks' costs are questioned in the light of extravagant competition.

E - NEAR MONEY INSTITUTIONS

E.1. a. Consumer finance institutions should not be controlled by the Bank of Canada but directly by the Minister of Finance.

E.2. a. Trust Companies and similar near money institutions should not be brought under control of the Bank of Canada since they provide competition to the Chartered Banks which should ensure satisfactory compliance with monetary policy as expressed through Chartered Banks' interest rates when these are made wholly reflective of monetary policy as enforced by Bank Rate.

Reference - F - MONEY MARKET

F.2. The Bond Market - the investment function of the money market should avoid over-concentration in any one centre, but, since concentration is inevitable, widest possible distribution of investment throughout Canada is in the national interest.

F.2. a. All bonds and debentures should be listed and dealt in on Canadian Stock Exchanges, and all such transactions should be published continually.

b. A Government Agent or Government Broker should be established to conduct Government business on a Stock Exchange, with particular application to funding.

c. A fixed scale of graduated commissions should be set for dealing in bonds as in shares, and should be the same for all dealers.

d. Off market or wholesale transactions in bonds should be prohibited except in cases of new issues.

e. No division of commission between bond dealers or brokers nor any other rules should be allowed which gives advantage to one Exchange over another.

f. As many companies as possible should be encouraged by every means to list all their securities on all Canadian Bond and Stock Exchanges.

Reference - G - CURRENCY EXCHANGE

G. 1. a. The Canadian exchange rate should not yet be fixed in terms of U.S. dollars but the question should be one for periodic review and recommendation by the Directors of the Bank of Canada in their capacity as an Economic Council.

INTRODUCTION

The writer acquired his interest in monetary economics as a result of working in the London Money Market (Allan, Harvey & Ross, Billbrokers) 1924-26 : thereafter in association with Kitcat & Aitken, London Stockbrokers, as a Member of the London Stock Exchange till 1928 ; thereafter as a partner of Kitcat & Aitken till 1931.

He is constrained to present this brief to the Royal Commission on Banking and Finance because, through the medium of Norman R. Whittall Ltd.'s monthly "Financial Barometer", of which he is editor, the writer publicly attacked the Bank of Canada's monetary policy consistently throughout 1957 and thereafter and thus, perhaps its first public critic, may have had a small part in promoting the argument which culminated in ex-Governor J.E. Coyne's resignation.

This criticism originated in the following circumstances, which might be given some historical background.

Prior to 1930 Central Banking may be said to have been involved largely with national debt and money management, Government financing and only to a small extent in the settlement of international obligations since most balances resulting from international trade and invisible transactions were then settled more or less automatically through the free currency exchanges and bullion markets. Following the 1930 deflation the late Lord Keynes expounded his theories on money management which, while furiously debated, nevertheless gradually gained varying amounts of credence in different countries at least to the extent that his broadest ideas embracing contra-cyclical money management were to some extent tried by various Governments - this brought Central Banks and Governments into closer relationship, the latter becoming

[illegible] comprising

[illegible] result of occurring in the lower [illegible] Pleistocene [illegible]

[illegible] in association with

[illegible]

[illegible]

[illegible] 1957).

[illegible]

[illegible]

[illegible]

increasingly interested in money management and interest rates in the internal sphere and for settlement of international balances in the external sphere of Banking. This led to Central Banks becoming responsible for management of the national gold reserve, the handling of which had previously been the prerogative of the national Treasuries.

After World War II, and particularly as the result of the Bretton-Woods Conference, the formation of the International Monetary Fund and the Bank for International Settlements, the Central Banks really became the supreme agents of their Governments, through whom monetary policy was directed as it gradually became recognized as a component of national economic policy. By now the Keynesian theory, still debated, had become internationally accepted by increasing numbers of Governments, at least to the extent that monetary policy, though not always practised according to Keynes, was relied upon as a potent economic weapon - in U.S.A. this contra-cyclical management of money became known as "leaning against the wind" in Treasury and Federal Reserve circles. Certainly by luck and possibly through good judgment Canada practised the broadest concept of the Keynesian theory more correctly than had any other country since, although her national debt had been expanded enormously for war purposes in the early 1940's rather than to offset deflation, she taxed her inflated profits of the post-war era sufficiently to reduce her debt from over $17 billion in 1946 to approximately $11 billion by 1957. Thus were good times used for debt repayment which placed her in a strong position to re-inflate again through deficit financing should bad times recur, which was Keynes' concept.

As a result of the Bretton-Woods Conference, international exchange rates were fixed in terms of U.S. dollars which, for international purposes, were convertible into gold. Thus currencies, and particularly U.S. dollars, became increasingly

[illegible]

[illegible] World War [illegible] Bretton Woods Conference [illegible] Fund and [illegible] Bank for [illegible] the Federal [illegible] Bank [illegible] Government, through whom monetary policy was directed as it practically became recognized as a component of national economic policy. By now the Keynesian theory, still debated, has become internationally accepted by increasing numbers of Governments, at least to the extent that monetary policy, though not always practised according to Keynes, has [illegible] as a [illegible] weapon [illegible] management of money [illegible] against [illegible] Treasury and Federal Reserve [illegible] possibly through good judgment [illegible] of the Keynesian theory more [illegible] than had any other country since, although her national debt had been expanded [illegible] for war purposes in the early 1940's rather than to offset deflation, [illegible] and her inflation [illegible] sufficiently to reduce her debt from over $17 billion in [illegible] to [illegible] billion in 1957. [illegible] good times used for debt repayment, [illegible] placed her in a strong position [illegible] through deficit financing should bad times recur, which was [illegible]

As a result of the Bretton Woods Conference, [illegible] exchange rates were fixed in terms of U.S. [illegible] which, for international purposes, were convertible into gold. These currencies, and particularly [illegible] became [illegible]

acceptable to foreign Governments for national reserves instead of gold which they have increasingly replaced for this purpose. As the issuers of currency the Central Banks became yet more involved with their related Governments until such Banks and Governments have become synonymous for all practical purposes in most of the large countries.

In these broad circumstances Canada experienced the 1955-57 capital investment boom with investment peaking at $8-1/2 billion in the latter year. Throughout this whole period her money supply remained virtually constant, so much so as to render her short of funds in the sense of working capital (1955 $11,397 billion, 1956 $11,438 billion, 1957 $11,923 billion) and this kept interest rates constantly higher than those prevailing in New York, thus encouraging capital in-flow which primed the investment boom. In spite of this retail demand, rising only by $1.714 billion or by 13% throughout the period, being at the rate of 6-1/2% per annum, provided no evidence of abnormal demand inflation which to the extent that it existed sprang from capital (investment) demand - this was evidenced by a noticeable rise in prices for such capital items as cement, steel, and lumber, not forgetting wages, while virtually all other commodities were stable or falling in price. Unemployment had shown its face as investment increased automation. Retail prices rose in the face of increasing surplus productive capacity resulting from the massive investment. Here were all the symptoms of growing cost rather than demand inflation.

All forms of inflation have their origin in monetary inflation but a restricted money supply, with resulting high interest rates, can only check cost inflation through creating unemployment which it influences. But through encouraging capital in-flow with high interest rates it also may be said to have been largely responsible for our exchange premium which impeded exporting the fruits

[illegible] gold with [illegible]. As the lessons of [illegible] [illegible] [illegible] purposes [illegible]

[illegible]

[illegible]

[illegible] llion in the latter year. The [illegible] [illegible] New York, thus [illegible] [illegible] by $1,778 billion [illegible] [illegible] at the rate of [illegible] [illegible] extent that [illegible] [illegible] Unemployment [illegible]

[illegible]

[illegible]

of the new capital investment while it also added to costs and increased Canada's liability for future payment of interest and dividends abroad - here were grounds for criticism since an opposite policy, rendering money at least cheaper than New York rates, should have encouraged domestic investment at the expense of external investment in Canada and might have saved Canada from the last-mentioned disadvantages or at least minimized their adverse effect.

These circumstances led to considerable criticism of the Bank of Canada when the investment boom ended, as it must, not so much for the foregoing reasons but because Bank policy failed to complement national economic policy as it had been expounded by the Conservative Party which became the Government as the result of the 1957 and 1958 elections - it seemed that the Government was trying to re-inflate, legitimately according to Keynes' theories, and that the Bank of Canada was not cooperating. Indeed its Governor, Mr. Coyne, stated that his first duty was to ensure "sound", presumably meaning "hard to get", money. Thus, with the Bank of Canada and the Government at cross purposes, deflation, deriving from high cost-price resistance and from over-investment in surplus productive capacity, remained the order of the day. There is considerable evidence that the Government was as much to blame for this as was the Bank of Canada since it failed to adapt taxation to meet cost inflation and has not done so yet. But the point to emphasize is the conflict of interest between the two and the fact that it was possible for the Bank of Canada to thwart Government intentions - this, apart from being destructive, was undemocratic and contrary to the synonymity of Central Bank and Government which had evolved throughout the free world.

Irrespective of personal opinions regarding the economic circumstances outlined above, here was clear evidence of the danger

of a Central Bank's monetary policy failing to complement Government policy - althogh the money supply increased rapidly after 1957, Bank Rate, except for brief interludes, remained inexplicably high until 1961, both in relation to the money supply as well as in comparison with rates prevailing elsewhere, and particularly in U.S.A. which was the main source of capital in-flow. In the event deflation persisted until 1961 when the Government took action to impose its policy on the Bank of Canada.

The foregoing broad references to Keynesian theories should not be interpreted as implying the writer's full agreement therewith. Indeed, he views them only as the last important step forward in economic thinking and one fraught with dangers and weaknesses. The most evident danger, even where legal limits are set on debt as in U.S.A., is perhaps inability to compel Governments to redeem debt during inflationary periods - a striking example of weakness is that, at best, contra-cyclical monetary policy can only influence and can not alone create change of economic direction - this was confirmed most recently by the British Radcliffe Report. It is clear that maximum contraction of the money supply, with resulting penal interest rates, can choke off demand inflation but it cannot prevent cost inflation, which indeed it may aggravate even if aggregate wages fall as a result, unless corporate taxes fall and personal taxes rise because otherwise unit costs increase with reduced output. But vice versa, an abundance of cheapest money can not ensure reflation if the various sectors of society will not use the money. During periods of very or moderately cheap money between 1957 and 1962 in Canada, demand was not stimulated, partially because cost inflation invited consumer resistance in export and in domestic markets, and partly because the latter did not feel the effect of cheap money due to the fact that the Chartered Banks' lending rates did not

reflect the lower Bank Rates - this is still the case.

Contra-cyclical money management is only recognized herein because, however poorly practised, it is the "order of the day" and is likely to remain so until another economist steps ahead of Keynes. The writer would hazard the opinion, nevertheless, that the first Government to practise Keynes' theory honestly and fearlessly, creating debt during deflation, redeeming it during inflation and adapting taxation to complement monetary policy, could control an economy much more successfully than hitherto and thus without resort to socialistic ideas which otherwise gain political support. But Governments have now practised monetary inflation so much and for so long without attempting to reduce outstanding purchasing media when opportunity arose, except in Canada, that a question arises as to whether they will have the chance to mend their ways.

reflect the lower Bank rates – this is still the case.

[illegible]

herein because, however poorly practised, it is the "order of the day" and is likely to remain so until another economist jumps ahead of Keynes. The writer would record the opinion, nevertheless, that the first Government to practise Keynes' theory honestly and fearlessly – creating debt during deflation, redeeming it during inflation and applying taxation to complement monetary policy, could control economy much more successfully than hitherto and thus without resort to [illegible] which otherwise gain political support. But Governments have now practised monetary inflation so much and so long without attempting to reduce outstanding public debt when opportunity arose, except in Canada, that [illegible] whether they will have the chance to [illegible] their [illegible].

B - THE BANK OF CANADA - ORGANIZATION

B.1. In the light of the foregoing, The Bank of Canada, in my view, adopted a restrictive monetary policy at the wrong time because it failed to recognize cost inflation, deriving from excessive capital investment which was feeding on excessive capital in-flow, as the main economic threat and instead appeared to fear demand inflation which, since to the extent it existed derived from capital sources, could have been expected to disappear with the end of the investment boom - indeed Central Bank Policy appeared to reflect a phobia about demand inflation long after 1957 when demand from all sources was deflated. But if such a view is controversial it seems beyond dispute in 1962 that The Bank of Canada's policy from 1956 to 1961,

a. was dictated by one individual, its ex-Governor, Mr. Coyne, who could not have been infallible, and

b. was not complementary to Government policy.

If these conclusions suggest that the Central Bank should be provided with a better source of economic guidance and should be controlled in the last resort by the Government, wisdom cautioning that it should still be given the largest possible measure of independence consistent with such Government control in order to protect Canada from any risk of excessively irresponsible Government interference - if it appears to be desirable to protect Government from Bank it may be equally desirable to protect Bank from Government.

B.2. This suggests that the various Bank Acts be amended to provide

a. A permanent Economic Council for the Bank of Canada which is also available for consultation by the Government. Thereby would Canada be assured of the services of such

a Council irrespective of political sentiment in this respect. For convenience this Council should -

b. Comprise The Bank of Canada's own full-time Directors who should be appointed by the Government solely on their individual merits as experienced practical economists, bankers, and businessmen of the highest calibre, irrespective of their political affiliations. Indeed, known or recognizable political bias should be a disqualification for appointment.

c. In order to represent regional as well as national economic interests these Directors should number six, four of whom should respectively represent the Maritime Provinces, the Quebec-Ontario industrial complex, the Prairie Provinces and B.C., while the other two should coordinate all interests into the national objec-

These six Directors should be additional to the Governor and Deputy Governor of the Bank of Canada.

d. In the interests of continuity, each Director should retire in rotation annually, including the Governor but excluding the Deputy Governor, to provide maximum seven-year appointments. Directors may be available for re-appointment.

e. The Board of The Bank of Canada should be responsible to the Minister of Finance for coordinating monetary policy with the Government's fiscal policy as well as for advising the said Minister on economic affairs. But, in order to maintain maximum independence for The Bank of Canada, the Board should report at least semi-annually publicly to the Nation on economic affairs. In the event that such public reports conflicted with Government policy this would bring such conflict

into open debate (as in fact the Fleming-Coyne conflict did) thereby providing substantial protection for the Nation against irresponsible Government interference - if such public reports were compulsory, National prestige should not suffer unduly from public debate since the latter would have informative and educational value to the benefit of all.

f. On appointment, Directors should resign from all previously held appointments, in compensation for which and for their services they should receive high salaries which are competitive with those for similar positions in business.

C - BANK OF CANADA - OPERATION

In the introduction to this brief the developing role of monetary management as an economic force has been outlined, and reference was made to the fact that after 1957 interest rates remained inexplicably high until 1961 in spite of a rapidly increasing money supply.

C.1. If it is possible to express Keynes' main theory in regard to interest rates briefly, it may be said that he advocated increasing the money supply through deficit financing and monetization of the resulting new debt in order to create greater availability of credit and to force corresponding low interest rates to stimulate consumption and/or investment in periods of deflation. Vice Versa, in periods of inflation he advocated budgeting for surpluses with which to redeem debt and restricting or even reducing the money supply to force interest rates up in order to restrict demand and investment. This is really the whole essence of his theories which Governments endeavour to practise. Since chronic rather than acute deflation had set in by 1958 the present Conservative Government had advocated the first alternative prior to the election in 1958; that is to say, it advocated increasing the money supply to bring down interest rates, and, in fact, budgeted deficits for the purpose. You are invited to see what happened in Canada when the money supply was increased steadily after 1957 from $11.923 billion to $15.035 billion by December 1961. Ninety-day Treasury bills, on which the so-called Bank Rate is fixed weekly at .25% higher than tender prices, fluctuated throughout the period from 3.62% in December 1957 down to 0.87% in July 1958 up to 6.16% in August 1959, when the economy was still deflated, down to 1.70% in September 1960 since when it remained fairly steady around 2-1/2% through

most of 1961. So the increased money supply only occasionally reflected itself in cheap money and once was reflected in the dearest money ever experienced in Canada. Since it takes weeks if not months for Bill Rates which fluctuate weekly to indicate a trend, and since Bank Rate fluctuates with Bill Rates, there was no clear notice to the money market - nay, to the country as a whole, of the intention of monetary policy except insofar as it is indicated annually by the Budget. This automatically tends to thwart monetary policy as it does also investment in debt because the latter investors, whether institutional or private, are kept guessing as to interest trends.

C.2. Worse is the fact that neither Treasury nor Bank Rates were or are reflected in Chartered Banks' lending rates. The prime rate, after having reached its legal limit at 6% in the summer of 1959, persisted first at 5-3/4% and then at 5-1/2% where it is today.

It should be obvious that monetary policy as expressed by the Central Bank's interest rate is automatically rendered ineffective as an economic weapon if it is not fully reflected throughout the country through Chartered Banks' lending rates. International experience shows that the latter's prime rates normally exceed minimum Bank Rates by about 1% and maximum Bank Rates by 2% or slightly more. Put another way, there is little point in trying to restrict demand through a curtailed money supply and resulting very high Bank Rate unless the latter is in turn reflected by penal interest rates charged by the Chartered Banks. Vice versa there is equally little point in inflating the money supply to force down Bank Rate in order to stimulate demand through an abundance of cheap money if proportionately cheap money is not procurable from the Chartered Banks.

You are asked to note that when Bank Rate reached its

ment of 1951. So the [illegible] money supply [illegible]
reflected itself in very heavy [illegible] which was reflected in the dearest money ever experienced in Canada. Since it takes

indicate a trend and since Bank Rate Escalates with Bill Rate, there was no clear notice to the money market - nay, to the country as a whole, of the intention of monetary policy [illegible] as it is [illegible] by the Budget. This automaticity [illegible] to the [illegible] monetary policy as it [illegible] also [illegible], further contribution [illegible] present trends.

C.2. [illegible] neither Treasury nor Bank Rates were or are reflected in Chartered Banks' lending rates. The [illegible] [illegible] its legal limit at 6% in the [illegible] of 1956, [illegible] at 5-1/4% and then at [illegible] where it is today.

It should be obvious that monetary policy as expressed by the Central Bank in interest rate is automatically rendered ineffective as an economic weapon if it is not fully reflected throughout the country through Chartered Banks' lending

rates currently exceed minimum Bank Rates by about 1% and maximum Bank Rates by 2% or slightly more. This another way, there is little point in trying to restrict demand through a curtailed money supply and resulting very high Bank Rate unless the latter is in turn reflected by normal interest rates charged by the Chartered Banks. Vice versa there is equally little point in inflating the money supply to force down Bank Rate in order to stimulate demand through an abundance of cheap money if proportionately cheap money is not procurable

You are asked to note that when Bank Rate reached its

highest level in August 1959 at 6.41% the Chartered Banks' prime lending rate went to its legal limit at 6%, thereby minimizing the force of restrictive Bank Rate (had the latter been intended) and vice versa that when Bank Rate reached its more recent low at 2.26% in August 1961, since when it has barely exceeded 3%, the Chartered Banks' prime lending rate persisted at 5-3/4%, thereby thwarting monetary policy except insofar in each instance as corporate borrowers are not too much influenced by interest rates because present methods of taxation result in the Government paying 50% of interest charges. This latter phenomen surely suggests that the differential between high and low prime lending rates should be stretched to its maximum in order to render monetary policy more effective with particular regard to corporate borrowers.

C.3. It should also be noted that when national economic policy favours reflation this essentially means stimulation of internal demand in both the consumption and investment spheres of the private sector of the economy. In this case it should be evident that such a policy also favours discouragement of saving because Government, in order to practise deficit financing and monetize the resulting debt, must borrow from the Banking system and not from public savings which, in the circumstances, are relied upon to create increased demand.

You are invited to note that Chartered Banks customarily offer approximately 2% below their prime lending rate for savings accounts and hence, with prime rates at 5-1/2%, are now offering 3-1/2% on savings accounts whereas if the prime lending rate was now at, say, 4% or 1% above Bank Rate, the Chartered Banks would be unlikely to be offering much more than 2%, if that amount, on savings and in present circum-

stances might not be paying as much if presumed monetary intention was to have its full effect.

Hence, Chartered Banks' practice of fixing prime borrowing and savings rates at levels which do not reflect monetary policy as expressed by Bank Rate results in thwarting the purpose of that policy.

C.4. Nevertheless, since the Chartered Banks rely on savings accounts for some 60% of their lending ability, a reflationary monetary policy might be defeated if such savings were discouraged by minimal interest rates.

C.5. a. C.1. suggests that Bank Rate should be periodically fixed by the Bank of Canada, as it is in other countries, so that it clearly indicates to the whole country, including its money market, what prevailing monetary policy is. And since it has been suggested that the latter should be complementary to Government policy, a fixed Rate would also indicate the Government's economic intentions.

b. Since corporate borrowers are, due to taxation methods, less responsive to high interest rates, the differential over a period between lowest and highest Bank Rates should be very wide, peaking perhaps as high as 8% or more, in order to force such policies into effect by discouraging corporations from borrowing.

C.6. The Bank of Canada should be given full authority and encouraged to vary Chartered Banks' reserve requirements which should be made much better use of together with more aggressive open market operations in order to force Chartered Banks' prime lending rates to comply with Bank Rate. But, perhaps more important for this purpose, the Bank of Canada should become a willing discounter of Chartered Banks' Bills or other first-class short-term paper. The

Bank of Canada might be given authority in the last resort to dictate prime lending rates to the Chartered Banks if these weapons proved impotent - the Bank of Canada can, of course, force highest prime lending rates on the Chartered Banks with comparative ease by increasing their reserve requirements at the Central Bank and by selling bonds to them for cash and so starving them of funds. But, although it can influence, it can not similarly force on them minimum lending rates by flooding them with funds because the Chartered Banks might well resist a profit squeeze resulting from the low return on their loans although this should only develop if low interest rates failed to increase the volume of loans.

D - CHARTERED BANKS

D.1. a. To render deflationary monetary policy (C.2) fully effective there should be no legal maximum to Chartered Banks' prime lending rates.

b. To render reflationary monetary policy equally effective and at the same time ensure that Chartered Banks are not starved for savings, (C.4.) these Banks should have greater resort to Bank of Canada for discount facilities and for loans, thereby helping the latter to pump even more money into the economy if other methods mentioned in C.6. proved ineffective.

D.2. The fact that the Chartered Banks have not lowered their prime lending rates sufficiently to reflect low Bank Rate has been mentioned (C.1.) - this can probably be attributed to several reasons, one being that the increase in the money supply, having been brought about by Government spending through deficit financing, has been reflected in increased deposits in savings and current accounts with the Chartered Banks, but has not proportionately increased their lending powers because of fixed reserve requirements at the Central Bank and because of fixed minimum liquidity ratios. But more than anything else it probably reflects inability of the Chartered Banks to discount their Bills or other prime short-term paper at the Bank of Canada whereby they could acquire funds to compensate for reduced savings resulting from minimum interest rates. But it also begs the question as to how aggressively the Central Bank has bought bonds from the Chartered Banks for cash in an attempt to flood them with money. Action of the bond market over the last few years points to minor use of this weapon. But apart

from these probable reasons there is a perhaps not wholly unjustified suspicion that the Chartered Banks, having been penalized by the legal 6% limit on lending rates when Bank Rate exceeded 6%, and conscious of the possibility of a profit squeeze resulting from lower lending rates, may be resisting the latter consciously. Is there not some truth in the belief that Chartered Banks' prime lending rates bear a closer relationship to those same Banks' profitability than to Bank Rate, particularly when the latter is in present circumstances stripped of all power to make itself effective?

a. If steps are taken to render a periodically fixed Canadian Bank Rate effective, and if particularly in reflationary periods this exerts a profit squeeze on the Chartered Banks through forcing down prime lending rates and the volume of savings, there would appear to be areas for profitable expansion of Chartered Banks' business which the latter have not made full use of and which, if developed, could provide some compensation. For instance, overdrafts or unsecured call loans, which should automatically command 1/2% to 1% or more interest above prime lending rate, have been developed to a high degree, and considerably more than in Canada, by the British Joint Stock Banks. In Canada this business appears to court the stigma of privileged borrowing, but what borrowing is not privileged? Admittedly development of such business on a really broad scale similar to that practised in Britain may entail a more personalised banking relationship with customers in Canada than presently exists, but, because of the very nature of banking, this might be desirable.

D. 3. The foregoing comments, particularly in D. 2. and D. 2. a. automatically beg the question as to whether Chartered banking costs are too high in Canada. Canadian society as a whole may be justified in questioning extravagant competition which seems evident by the enormous number of a single Chartered Bank's branches in cities, often within a stone's throw of each other, to say nothing of their proximity to competitors' branches.

E - NEAR-MONEY INSTITUTIONS

E.1. It has been suggested that the Bank of Canada can not fully exercise a monetary policy because the so-called "near money" institutions need not and tend not to cooperate - the Chartered Banks support the view that these institutions should be subject to the same control by the Central Bank which they themselves are subject to.

The "near money" institutions can broadly be divided into two categories:-

consumer finance institutions, viz. finance companies and all retail business which extends credit and

investment institutions such as Trust and Insurance Companies

It is assumed that we believe in the competitive free enterprise system. In this case it should be recognized that both categories present competition to the Chartered Banks which should not be disrupted more than is necessary to ensure maximum effect for the Central Bank's monetary policy.

a. Since consumer finance institutions can be and have been controlled successfully by Government regulation respecting percentage of down payments and period of term credit and since such regulation has a direct and therefore rapid effect on consumer demand, these institutions need not be brought under control of the Bank of Canada - their terms of credit should be directed by the Minister of Finance according to prevailing monetary policy.

E.2. Investment type institutions such as Trust Companies which use and lend short-term money are already strictly regulated by the Trust and Trustee Acts - they have little recourse to the Chartered Banks and keep their rates highly

competitive with the latter's. They tend, however, to pay higher rates on deposits which, other than for increased capitalization through new financing, represent an important source of loanable funds. Strangely enough the latter are commonly said to be available to thwart a deflationary or tight monetary policy when the Chartered Banks are discouraged from lending by the Bank of Canada. But if the Chartered Banks were allowed to charge penal interest rates on such occasions, as recommended, it would be strange if the Trust Companies did not follow suit. A better criticism of the latter, which has herein also been levelled at the Chartered Banks, is that in reflationary or cheap money periods their higher rates for deposits may attract savings which are at these times required to stimulate demand. But here again means have been suggested whereby the Bank of Canada can more aggressively force Chartered Banks' interest rates down as well as up and it would be strange if competition allowed Trust Companies to pay high rates for deposits when the banking system was not competing for the latter.

a. Trust Companies and similar institutions should not be brought under direct control of the Bank of Canada since they provide competition for the Chartered Banks.

b. Insurance and Mortgage Companies do not habitually lend call and short-term funds which, unlike term loans, are mainly affected by monetary policy. Their activities in respect of underwriting will be dealt with under matters effecting the money market. Due to the term nature of their business there would appear to be little point in giving the Central Bank more authority over them than it can exercise through interest rates.

competitive with the [illegible]. Their fund, however, to pay higher rates on deposits which, other than the increased capitalization through new financing, represent an important source of loanable funds. Strangely enough the latter are commonly said to be available to thwart a deflationary or tight monetary policy when the Chartered Banks are the targets of restraining by the Bank of Canada. But if the Chartered Banks are allowed to pay higher interest rates on [illegible], it would be strange if the Trust Companies did not follow suit. A better solution of the matter, which has been also been [illegible] at the [illegible] [illegible] [illegible] which are [illegible] interest [illegible] deposit. The [illegible] again [illegible] whereby the Bank of

[illegible] as well as [illegible], but it would be strange if [illegible] of the [illegible] high rates for 9 months when the [illegible] make [illegible] letter

A. [illegible]

[illegible] Chartered Banks

[illegible]

F - MONEY MARKET

F.1. Since the writer has not been in the "actual" money market in Canada, he refrains from comment about its operation and chooses instead to comment about two aspects of its broadest functions which are to facilitate to the greatest extent joining sources of money with uses for money, both sources and uses being legion. In this sense the market will first be discussed from the point of view of how it serves this purpose - can it be improved?

You are invited to view the money market's function in a relatively sparsely-populated but nevertheless huge country in area and to remember that concentration of populations are closely related to concentrations of wealth which, in its various forms, is the source of money. In this light a common disposition to regard the Canadian money market as a child of the London market which services, insofar as its internal function is concerned, a highly concentrated population within the small area of the British Isles, may lead to misunderstanding of its function as much as to a poor assessment of its use. If we relate the position of our market in these respects to the more or less similar position of the New York money market we might usefully question whether the latter has really served its purpose as usefully as it might through being concentrated so much in that city - in earlier days when development of, say, California was at about the stage in which B.C. finds herself now, it may be asked whether that State might not have reached its present stage even faster had it not been for a natural tendency for investment to concentrate first close to its main sources - London is but a stone's throw from Liverpool but, in spite of jet aircraft, New York is still a long way from California. A similar

situation is more recognizable in Canada's less developed condition wherein our West is still a long way from the eastern money market's thoughts. This is not to say that B.C. is neglected by the Canadian money market centered in the East, but it is worth remembering that, had it not been for indifference in Montreal and Toronto to the birth of the oil industry in Alberta in 1947 less of that industry would be owned by U.S. interests than is the case today. Yet, back in 1950 or 1951 much less 1947, huge quantities of money were generated here in the West through insurance premiums, banking services, transportation, etc., which automatically found their way to Montreal and Toronto where they became available for investment in fields, which because they were close to these cities, automatically had prior claim to the West.

The money market in all its phases will certainly remain concentrated in the largest centre of wealth, which is the Eastern industrial complex, but the foregoing is to suggest that everything possible should be done to avoid over-concentration in the East to the detriment of the rest of Canada - Toronto or Montreal is not London in this respect. This is to say that, since money makes money, that generated in the West should be encouraged in every possible way to seek employment in or through the West - the latter means that if direct investment is not available or sufficiently attractive in the West money generated here should not have to flow East for security investment. We are trying to develop Canada - not Eastern nor Western Canada!

In the light of the foregoing it is worth pointing out that in these respects Western Canada is even worse off than

also than a strong [illegible], [illegible] made a large involved condition whereby [illegible] would still [illegible] was spent on [illegible] money, [illegible] tourists, [illegible]. This is not to say that B.C. is neglected by the Canadian money market people, in the [illegible], but it is with the [illegible] that had it not been for a difference in [illegible] and [illegible] in the [illegible], of the oil industry in Alberta in the form of [illegible] this area would be [illegible] than it is [illegible].

Yet, back in 1950 or 1951 [illegible] 1947 huge quantities of money were generated [illegible] through insurance [illegible], banking activities, transportation, etc., which automatically [illegible] Montreal and Toronto where the financial establishments are located [illegible], with [illegible] they were [illegible], [illegible] but [illegible] [illegible] to the [illegible].

The money market [illegible] will [illegible] results concentrated in the [illegible] of [illegible]. [illegible] Eastern [illegible].

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

are Western U.S. States, due to the concentration of our banking system in Montreal and Toronto - few U.S. States do not have their National State or City Banks, and indeed California is the home of the huge Bank of America which has concentrated its business in the West. These Banks undoubtedly represent a source of funds which is more available to their related localities than are similar funds in the hands of our Chartered Banks. It is not denied that, due to their concentration, our Chartered Banks probably represent a stronger Banking system than do their opposite numbers in U.S.A. in spite of the Federal Reserve organization, but neither can it be denied that in the particular respect discussed the U.S. system has certain advantages over ours.

F.2. In the light of the foregoing (F.1.) security investment will be discussed as components of the money market in its broadest sense.

THE BOND MARKET

Bill brokers are the hub of the London money market. Since these are absent as such in Canada the market is largely operated by bond dealers who, of course, should be among the market's customers! This may present some confliction of interests but there seems to be no ready alternative to the market's composition - discussion passes to its investment functions first in respect of bonds, the two main sources of debt being Government and industry.

News relating to investment in debt is available from Bond Houses, but how much and how topical is it compared, say, to stock market news? During prolonged periods of inflation bonds are out of favour - stocks are in favour, but, apart from the fact that this may not always be the case, if money is to be fully employed, there must be informed investment

are Western U.S. [illegible]

[illegible] Montreal and Toronto. The U.S. States [illegible]

[illegible] California [illegible] of the huge [illegible]

[illegible] in the West. [illegible]

[illegible]

[illegible] it is understood that, [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

3.2. In the light of the foregoing [illegible]

[illegible]

[illegible]

[illegible]

on the largest scale. The most important source of all funds, the public owners of savings, have the most superficial knowledge of bonds, and virtually none about Government operations which may considerably affect price and yield trends. In other words, action of the bond market, in spite of having considerable influence on stock markets, is largely a technical question for bond dealers and institutional or substantial private investors - and is considered to be above the heads of the public, which means that it is above the heads of the largest of all sources of money. This is not similarly the case in Britain or in Europe where the public is informed by much greater publicity given to all forms of Government operations such as funding and Gilt-edged or Rentes markets in London and Paris respectively are discussed topically as much as are stock markets - here in Canada stockbrokers are actually discouraged from trading in bonds because bond dealers, except for purely technical separation of principal from customer, deal with the public on terms which are virtually wholesale in the eyes of a stockbroker. All this hardly seems to be in the interests of broadening the money market in this important sphere, either from a territorial or distributional point of view - indeed, it begs the question why inventories of bonds should be carried by anyone any more than are inventories of stocks - why bond issues can not be underwritten and distributed just like stocks and thereafter marketed between buyer and seller in the appropriate market-place which, in the interests of Canada as a whole, appears to be a Bond & Stock Market in which Government as much as Public operates openly. What else are "open market operations"?

F.2. a. The foregoing comments (F.1. and 2.) suggest that all bonds, that is Governments and industrials, should be listed and dealt in only on Canadian Stock Exchanges which should become Bond and Stock Markets where business in all bond and debenture debt is transacted, and published continually exactly as are transactions in shares, and that no wholesale or off-market transactions should be allowed.

b. In order to render Government "open market operations" in fact open they should be conducted on the principal Bond and Stock Market either in Montreal or Toronto. To facilitate this, a senior official of the Bank of Canada might be granted privileges of such a Bond and Stock Exchange to enable him to act in such Exchange as the Government's Agent, or, to use the English term, as Government Broker. His transactions on behalf of the Government should be published in the same way as has been recommended for any other transaction. His business would, of course, exclude Treasury Bills, the tender for and purchasing of which can be handled as at present, so his business would largely involve funding.

c. A fixed scale of commissions for dealing in bonds should be set by Canadian Bond and Stock Exchanges in the same way as is presently set for shares, and this should be applicable to all dealers, on whom they should be enforced. These commissions in respect of bonds should be graduated down as volume of single transactions rises.

d. "Off market" or wholesale transactions in bonds should be prohibited, since in an entirely open market there seems little reason for any firm to carry substantial inventories of debt descriptions any more than one would do so in respect of shares.

e. In the interests of developing the money market in all its spheres to the maximum throughout the breadth of Canada, no Bond and Stock Market should be allowed to make any rules in any respects which are deliberately designed to the advantage of one Exchange over another.

f. In order to ensure maximum distribution of investment business better means should be found to encourage as many companies as possible to list their securities on all Bond and Stock Exchanges in Canada.

G - CURRENCY EXCHANGE

G.1. Certain chartered Bank Presidents have suggested that the existing "manipulated" Canadian exchange rate should be fixed in terms of U.S. dollars so that it can fluctuate only within certain fixed upper and lower limits as do the currencies of all Western countries who are members of the International Monetary Fund.

It is true that Canada is the only member of the I.M.F. who does not comply with its rules in this respect, but Canada is also in a category by itself among members of the I.M.F. which suffers from an extraordinary phenomenon which is virtually without precedent - no country has ever experienced a comparably large investment by a foreign country (U.S.A.) which was unwilling to purchase the products of that investment. This is even more phenomenal when it is realized that the bulk of this foreign investment in Canada took the form of equity investment rather than lending so that U.S.A. is not only unwilling to purchase the products of her investment here but she is thus willing to limit the profits of that investment also. Had it not been for this it is reasonable to suppose that, as foreign investment in Canada increased, particularly in the last 15 years, our exports would have increased proportionately, although in arrear of the investment, since we could not possibly consume these products internally. In this case Canada should not have suffered a dangerous deficit in her balance of payments. It should be obvious that, had it not been for capital in-flow which steadily increased our exportable surplus, the deficit in our balance of payments, resulting from inability to export sufficiently while steadily having to pay more interest and dividends abroad on in-flowing

capital, would have been reflected long ago by a substantial discount on our exchange. It is therefore submitted that our exchange rate is not subject to the ordinary stresses and strains which affect most countries, and that, if Americans are still willing to export capital to Canada in face of our huge deficit in overall payments which has exceeded $1-1/2 billion and now nudges $1 billion annually, and if they persist in restricting imports from Canada, in spite of these being so largely the products of their own investment, we appear to have no alternative other than to take special measures to correct this situation since a continuing capital in-flow has proved capable of forcing our exchange to a premium, which made it even more difficult to export while it encouraged importing, to the further embarrassment of our overall payments position - these special measures took the form of manipulating our exchange rate in our favour, and it is hard to see what alternative could have been as easily adopted.

Some suggest that the cost to Canada of keeping her exchange rate down may prove prohibitive. Indeed, if exports continue to rise faster than imports as a result of our exchange discount, which would create increasing demand for Canadian dollars with which to pay for them, this might be the case. But is this an argument in favour of a fixed rate of exchange, albeit at a discount, which does not relieve the country involved from the cost of maintaining it, although by thus complying with I. M. F. rules Canada might be in a better position to receive assistance from the I. M. F. if she needed it? Before agreeing with the I. M. F. to fix our exchange at a certain rate, it would appear to be wise to

[illegible] long ago by [illegible]

discount or [illegible] is therefore [illegible]

[illegible] is not subject to [illegible]

[illegible]

[illegible]

[illegible] payments [illegible]

[illegible]

in perpetuity [illegible] being,

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

of [illegible]

land [illegible]

[illegible].

[illegible]

change [illegible]

[illegible] a result of [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

let the situation develop further in order to be sure what rate would be the best.

It has been argued that fixed rates of exchange favour international trade because exporters and importers know better where they are and hence would be in a better position to make longer-term commitments. There is something in this, particularly from the competitive viewpoint, when such traders in other countries may have an advantage over Canadian traders in this respect. But it hardly justifies fixing a rate of exchange prematurely before the most favourable practical rate has been ascertained. It is worth noting that the rise in exports in the first 10 months of 1961 compares very closely with the approximate 7% more favourable exchange rate which was established during that period, but that a very large jump in imports took place in October since when an even larger increase has been reported for November. This strongly suggests that the advantage of a 4% discount on the U.S. dollar is neither sufficient to assure balance of our overall payments by increased exports any more than it can by penalising imports - it may well be that Canada needs a larger discount.

It should also be noted that arguments in favour of a [illegible] rate fail to recognise the value to an economy of floating rates through their historic ability to check or to correct economic distortions. Admittedly international movements of short-term funds even under a fixed rate structure have by no means lost this power, as we have seen only too frequently in the last year or so in connection with several European countries and U.S.A., but it is doubtful whether foreign short-term funds in Canada ever amount to a sufficient quantity to seriously influence economic direction by their entry or withdrawal. It is estimated that some

let the situation [illegible]

[illegible] on the [illegible].

[illegible] that [illegible]

[illegible]

better [illegible] they are [illegible] better [illegible]

[illegible]

[illegible]

[illegible] in other [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] which [illegible]

but [illegible] very [illegible]

[illegible]

[illegible]. This [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] It is [illegible]

$300 million to $400 million of short-term funds possibly left Canada when the Government announced last year that it would take steps to reduce the premium on our exchange, and it is a fair conclusion that the sum withdrawn represented total foreign short-term funds in our market at the time except for a small quantity needed permanently for working capital purposes. In this case virtual total withdrawal of short-term funds from Canada last year, encouraged by advertized Government policy purposely designed to reduce the international value of our dollar, was only capable of moving our exchange rate down by about 7% which has achieved no more than a slight improvement of exports but no real pressure on the direction of our economy. Therefore the conclusion remains that a much greater downward revaluation of our currency in terms of others than can be obtained by voluntary movement of funds may be needed to alter our terms of international trade sufficiently in our favour, unless we are prepared to take other and more practical steps to reduce costs and to render them competitive. This is as much a political - industrial as a monetary question but, until it is solved, there seems no alternative to using our exchange rate as a corrective. In this case, since the rate must suit unstable economic conditions, it could hardly be effective for any length of time if it could not respond, or be "influenced" to respond to changing conditions which means that it may not be effective if it is fixed.

While deploring the circumstances (cost inflation at home and U.S. import policies abroad) which call for exchange manipulation, one can only conclude that:-

G.1. a. The question of fixing the Canadian exchange rate in terms of U.S. dollars should be deferred indefinitely and should be a subject for periodic examination in the light of future developments by the Directors of the Bank of Canada in their proposed capacity of an Economic Council.

SUMMARY OF BRIEF
SUBMITTED TO THE ROYAL COMMISSION ON BANKING AND FINANCE

Sirs: (580 words approx.)

Because we recognize that advances in knowledge are dependent upon the questions asked, we think it useful at this time to raise some pertinent questions and suggest plausible answers.

1. Is the money supply at present "adequate"? (p.1 of Brief)

The relationship between Gross National Product and Money Supply since 1949, shown in Graph No.1, implies that the supply of money at present is not "adequate". Furthermore the leading theories on interest rate determination support the contention that the present restricted money supply and consequent high rates of interest are a drag on the economy.

2. Are monetary restraints and stimuli appropriate controls for the short business cycle? (p.2)

The data contained in our Brief leads us to the conclusion that an "autonomous" monetary policy whereby the money supply is increased in step with the desired rate of increase in Gross National Product, say 4% a year, is the most practicable, since the lags one might expect in the responses to monetary tightness and ease may be as long as a year, and the history of Canadian monetary measures provides few grounds for expecting that an administered policy of correct timing and magnitude will be realized.

3. What institutional changes can be made to modify the effects of hoarding and dishoarding? (pp 3. & 4)

It is recommended that the requirement of a reserve ratio of 8% to 12% be removed for the Savings Accounts of the Chartered Banks by having them keep reserves for their Savings Accounts in their Current Accounts, thus treating savings deposited with the banks similarly to savings deposited with Trust Companies.

There are a number of reasons for suggesting this change:
a. The "pure rate of interest" is generally regarded as being the reward for parting with liquidity, and the excess of all other rates is regarded as the return to risk bearing. Yet when the yield of corporate bonds fell to 4¾% in early 1958, the reward for parting with liquidity and for risk-bearing combined was only 2%, compared to 2¾% paid on funds which were fully liquid and free of risk in Savings Accounts. This change would strengthen the liquidity preference determination of the rate of interest.
b. The corresponding purchasing power of "savings" in Savings Accounts is not passed on to anyone for use. c. Banks should be encouraged to use true savings for long-term investment. d. Savings deposits should not be included in the Quantity of Money for it is overstated when minimum savings balances are so included, and when total bank deposits are held constant, a decrease in the Quantity of Money is masked. e. Canada needs more savings institutions and this change would encourage their development. f. The change would enable the tracing of money flows from savers to investors, providing data on dishoarding.

Summary of Submission to Commission on Banking and Finance — p.2

4. Should the volume of residential construction be insulated from credit control?

What happens when residential construction is dependent upon a competitive interest rate is demonstrated in Graphs No. 2 and 3. It is therefore recommended that residential construction be insulated from credit control to enable a low rate of interest and to allow housing to expand in step with demand, usually determined by "net family formation", assuming "ability to pay".

5. How can consumer credit be made available to "poor risks" at lower interest rates?

It is held that the most important factor determining a person's ability to meet his credit obligations is whether or not he stays employed, and since the Government is best able to mitigate against a recession, then if private companies cannot make loans at interest rates under the current 18% and over annual rates, the Government should establish a bank to do so. This would be merely extending to the consumer credit field the principle adopted in establishing the Industrial Development Bank to serve risks outside the scope of the Chartered Banks. Furthermore it is recommended that institutions outside the Chartered Banks lending to consumers should be brought under regulations more in line with those governing the actions of the Chartered Banks.

BRIEF SUBMITTED TO THE ROYAL COMMISSION ON BANKING AND FINANCE

Sirs:

This Brief is being submitted in response to the advertisement which you published. We understand that it will receive the consideration of the Commission, but that the closing date for its acceptance for presentation at the Public Hearings of the Commission for this B.C. area has passed.

We think that it will serve a useful purpose at this time to raise some pertinent questions, being mindful of the fact that our advances in knowledge are determined primarily by the questions asked. If even one fruitful question is raised which might otherwise have been overlooked, then this submission has served its purpose.

Questions for Consideration:

1. Is the money supply at present "adequate"?
2. Are monetary restraints and stimuli appropriate controls for the short business cycle?
3. What institutional changes can be made to modify the effects of hoarding and dishoarding?
4. Should the volume of residential construction be insulated from credit controls?
5. How can consumer credit be made available to "poor risks" at lower interest rates?

We recognize that it is one thing to raise questions -- quite another to provide plausible answers. Because our motivation is a deep concern for the Canadian people who suffer the hardships consequent upon wrong decisions by those in control of banking and finance, we cannot be content to stop at the raising of questions, but have endeavoured to search out workable solutions to them.

I. Is the money supply at present "adequate"?

The accompanying graph which shows Gross National Product and Money Supply from 1943 to 1961 (Graph No. 1) implies that the slow increase in money since 1951 has been a drag on Gross National Product.

BRIEF SUBMITTED TO THE ROYAL COMMISSION ON BANKING AND FINANCE

Sirs:

This Brief is being submitted in response to the advertisement which you published. We understand that it will receive the consideration of the Commission, but that the closing date for its acceptance for presentation at the Public Hearings of the Commission for this B.C. area has passed.

We think that it will serve a useful purpose at this time to raise some pertinent questions, being mindful of the fact that our advances in knowledge are determined potentially by the questions asked. If even one fruitful question is raised which might otherwise have been overlooked, then this document has served its purpose.

Questions Raised

1. Is the money supply at present "adequate"?
2. Are monetary restrictions and stabilizing measures sufficient for the short business cycle?
3. What institutional changes can be made to nullify the effects of hoarding and dishoarding?
4. Should the volume of residential construction be [illegible]
5. How can consumer credit be made available to "poor risks" at lower interest rates?

We recognize that it is one thing to raise questions -- quite another to provide plausible answers. Because our motivation is a deep concern for the Canadian people who suffer the hardships consequent upon wrong decisions by those in control of banking and finance, we cannot be content to stop at the raising of questions, but have endeavoured to search out possible solutions to them.

1. Is the money supply at present "adequate"?

The accompanying graph which shows Gross National Product and Money Supply from 1949 to 1961 (Graph No. 1) implies that the slow increase in money since 1951 has been a drag on Gross National Product.

Submission to the Commission on Banking and Finance, by H.G. Moore

The Swedish economist, Gustav Cassel, when pointing out the disadvantages of the gold standard claimed that economic expansion was curtailed because gold discovery was not keeping pace with potential economic growth. "Up to the War (World War I) a general economic development in the world of Western civilization had been characterized by a fairly regular rate of progress of 3 per cent annually. The average rate of growth of the world's <u>total</u> stock of gold very nearly corresponded to that figure . . . As a matter of fact, the world's gold production was amply sufficient up to 1916, but after that year it fell more and more short of the requirement indicated . . . The aim of our monetary policy must be to create such conditions for the world's economy as will allow the widest possible room for progress."[1]

Those in favour of controlled money supply claimed, and claim, that such a situation could thereby be rectified. We support this contention but submit that all of the leading theories of interest rate determination lead to the same conclusion -- that the present restricted money supply and consequent high rates of interest are a drag on the economy.

2. <u>Are monetary restraints and stimuli appropriate controls for the short business cycle?</u>

Because the lags one would expect in the responses to monetary tightness and ease may be as long as a year, we question whether these controls are appropriate for the short business cycle.

When in the Fall of 1957 the industrial production index, partly as a result of an earlier tightening of money supply, declined from 162 in June to 143 in December, an easing of money supply would not likely have arrested the <u>depth</u> of the plunge. On the other hand, a "tax holiday" of two or three months on personal income, with emphasis upon <u>spending</u> this tax refund in the interests of increasing employment might have prevented some of the hardship which resulted from the substantial drop in industrial production.

An aggressive policy of monetary ease could have strengthened the recovery -- if it had been maintained throughout 1958 and 1959. In the event, long interest rates fell very little at the start of 1958 and rose to a new peak in 1959.

An "administered" monetary policy of the correct timing and magnitude is conceivable but the history of Canadian monetary measures provides few grounds for expecting that the ideal will be realized. Thus the second best -- an "autonomous" monetary policy -- appears to be the most practicable course. There is much to be said for an increase in the quantity of money each year at the desired rate of increase in Gross National Product, say by 4% per year.

---

1. Cassel, G., "The Downfall of the Gold Standard", Oxford at the Clarendon Press, 1936, pp 8-9.

[illegible]

The [illegible] of the [illegible] was [illegible] potential economic [illegible] economic development [illegible] been characterized [illegible]. Other cost [illegible]. The [illegible] of the [illegible] tion of [illegible] rates of [illegible], the [illegible] to 1945, [illegible] such conditions for the [illegible] potential [illegible].

Those [illegible] of [illegible] point, that such a situation [illegible] interest [illegible] drag on [illegible].

2. [illegible]

Because [illegible] monetary [illegible] partly as a result of [illegible] from 1941 [illegible] not likely [illegible] a "tax holiday" [illegible] upon [illegible] from the [illegible] the [illegible] In the [illegible] 1949 [illegible].

An [illegible] and [illegible] measures [illegible] rate of [illegible].

[1] [illegible]

Submission to the Commission on Banking and Finance, by H.G.Moore

3. What institutional changes can be made to modify the effects of hoarding and dishoarding?

It is recommended that the requirement of a reserve ratio of 8% to 12% be removed for the Savings Accounts of the Chartered Banks. This could be accomplished by having the Chartered Banks keep "prudent reserves" in the form of Current Account deposits with themselves. In effect their Savings Accounts would be treated similarly to savings deposited with Trust companies who in turn hold balances in the Chartered Banks.

To ensure that the accounts are true savings, the chequing privilege should be limited to, say, one cheque a quarter, and the chequing privilege of Trust companies' deposits should be similarly restricted.

There are a number of reasons for recommending this institutional change:

(a). The "pure rate of interest" is generally regarded as being the reward for parting with liquidity, and the excess of all other rates is regarded as the return to risk bearing. By this reasoning, the pure interest rate in Canada is the spread between the 2¾% paid on Savings Accounts, and the yield on savings bonds redeemable at par on demand. It would appear that the competition between the Chartered Banks and the Trust companies for savings accounts business has held up the general level of interest rates?!

When the yield of corporate bonds fell to 4¾% in early 1958, the reward for parting with liquidity and for risk-bearing combined was only 2%, compared to 2¾% paid on funds which were fully liquid and free of risk! There is an anomaly here.

(b). There is a further anomaly. While a person is paid interest on Savings Accounts for "saving", the corresponding purchasing power is not passed on to anyone else to use -- the value of bank credit outstanding is not increased. Thus, increases in the minimum balances of Savings Accounts are drains out of the income-expenditure flow.

The change recommended would strengthen the liquidity preference determination of the rate of interest. Now an increase in money during recessions drains into Savings Accounts. If Savings Accounts were transformed into non-monetary repositories of savings, a large increase in the quantity of money would force down the reward for non-liquidity to a low level.

(c). Because minimum balances on deposit in Savings Accounts for one quarter or longer are true savings, the banks should be encouraged to use them for long-term investment.

Submission to the Commission on Banking and Finance, by H.O.Moore

3(c) continued

If the chequing account liabilities of the banks is not large enough to enable them to provide an adequate supply of loans to business and persons, then the supply of money should be increased.

(d). Savings deposits should not be included in the Quantity of Money. Since they are personal savings, they should be expected to increase indefinitely in step with personal income. The Quantity of Money is overstated when minimum savings balances are included and this leads to unwarranted alarm about demand-pull inflation. The rise in bank deposits of $1,100 millions during 1958 and 1959 appeared to many people to be an alarming increase. But Savings Accounts increased about $800 million and other deposits by only $300 million. When total bank deposits are held constant, a decrease in the Quantity of Money is masked.

(e). Canada needs more savings institutions, such as building and loan societies and farmers' banks, and the suggested change would open the way for their development.

(f). The rationalizing of Savings Accounts would produce a tidier system and make it easier for the money flows from savers to investors to be traced. "Dishoarding" would be more easily identified because the dishoarder would have to draw down his savings account.

4. Should the volume of residential construction be insulated from credit control?

A low interest rate for housing is recommended and this can best be accomplished by insulating residential construction from the impact of credit controls. The present situation is shown by the accompanying graphs on housing starts and interest rates (Graphs No. 2 and 3 respectively). In order to encourage housing starts, interest rates have been raised, and the period of repayment stretched to 35 years, to offset the increase in monthly payments which would otherwise have taken place. These measures do not appear to us to be the most effective or appropriate for guaranteeing a supply of housing in step with demand. The accompanying graphs indicate what happens to housing starts when NHA interest rate falls below competitive rates, and also how difficult it is to forecast the duration of the higher rates. Furthermore a repayment period of 35 years to enable the high interest rates to be absorbed means that in order to pay off the mortgage in monthly payments by retirement age at 65 years, a person must start by the time he is 30 years old.

It is recommended that residential construction be insulated from credit controls to enable a low rate of interest; to allow housing to expand in step with demand -- usually determined by "net family formation", assuming that the economy through a high level of employment provides the would-be house buyer with the "ability to pay".

Submission to the Commission on Banking and Finance, by M.G.Moore

3. How can consumer credit be made available to "poor risks" at lower interest rates?

It is assumed that most people who buy on credit enter into their obligations with the intention and expectation of paying according to their agreement. The most important factor determining their ability to do so is whether or not they can keep their jobs. Thus, during the early prosperous 1950's, it is difficult to see that the risk of not collecting the loans was commensurate with the high interest rates charged outside the Chartered Banks. Since default is mainly the consequence of a recession, interest rates in the order of 18% and 24% annually might be taken to reflect the Loan Companies' expectation of the Government's ability to maintain fairly full employment.

Since the Government is best able to mitigate against a recession, and thus the rate of defaults on loans, it would seem logical for the Government to extend its banking services to this area. If, in fact, consumer credit cannot be provided by private companies under the present extra-ordinarily high annual rates, the Government ought to establish a bank to do so. Such a bank would not monopolize the field, but might be expected to have a salutary effect on interest rates, as well as encouraging greater efficiency.

That the interest rate is unnecessarily high is indicated by a development in the Instalment Finance field. It is understood that new and used car vendors and perhaps others who, in making sales "on time", provide clients for the Instalment Finance Companies, receive a payment back under some of the finance plans. In other words, they receive back a portion of the interest charged to the buyer. It would thus appear that the very high rates of interest to the consumer on durable goods -- in the neighbourhood of 18% or more annually -- is in fact higher than the risk warrants, if such a rate enables a payment back to the dealer. It would appear that the Finance Companies could make the same profit while charging a lower rate of interest. Instead of increasing the number of customers through a lower interest charge, the inducement has been given to the dealer who brings together the customer and the Finance Company.

In recommending a Government Consumer Credit Bank, no new principle is involved. The Industrial Development Bank as initially established was to operate in those areas considered too risky for the Chartered Banks. (It has been noted that in the past year the Industrial Development Bank has indeed increased its loans substantially, and it is hoped that the defaults will indicate an extension of banking services to more venturesome risks.)

Submission to the Commission on [illegible]

1. [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Submission to the Commission on Banking and Finance, by H.G.Moore

5. continued

There is another way in which the position of the consumer who now borrows at a rate of 1½% or 2% monthly could be improved, and that is by more regulation in the Consumer Credit field. At the present time there is very little regulation or control over Consumer Credit outside the Chartered Banks. The Small Loans Act (R.S.C.1952, c.251) covers certain loans up to a net balance of $1,500; sets maximum rates (2% per month on amounts up to $300; 1% between that and $1,000; and 1½% on sums between $1,000 and $1,500); requires that reports be sent to the Superintendent of Insurance; and that books be made available for inspection. However, out of the $2,264 million of Consumer Credit granted by Instalment Finance Companies, Small Loan Companies, Department Stores and other Retail Dealers, (up to September 1961, the latest total available, some data being quarterly) only $563 million came under the provisions of the Small Loans Act.

All of the foregoing Consumer Credit, unlike the Personal Loans of the Chartered Banks is outside the direct impact of Central Bank policies, and outside the regulations of the Bank Act. Under Section 91 of the Bank Act, the maximum interest rate is set at "6 per cent per annum and no higher rate of interest or rate of discount is recoverable by the bank". The fact that the Chartered Banks have increased their Personal Loans (those not fully secured by marketable bonds and stocks, and excluding home improvement loans) from $308 million in 1953 to $1,030 million in December 1961, through more flexible plans and more aggressive advertising, will enable a larger number of people who did not avail themselves of bank credit before, either through inability or ignorance, to do so.

Where the rationing factor is not the price of borrowing money, the interest rate, but the monthly payment is the determining factor, knowledge of the high interest rates charged by lenders of Consumer Credit outside the Chartered Banks will not likely prove a deterring factor, if the borrower feels he has no alternative. The borrower who, having saved the down payment for a house, now requires a stove and refrigerator, will pay an interest rate of 18% if the monthly payments through an increase in length of term can be made manageable. Nonetheless, clear statement of the annual rate in large, not small print, should be required. Regulations of Consumer Credit lending institutions outside the Banking System should be closer to those within the Banking System.

Because regulation by a Department of the Bank of Canada might prove to be too rigid a control, it is recommended that the machinery established under the Department of Trade and Commerce to aid Small Businesses be extended to cover regulation of Consumer Credit outside the Chartered Banks, since the risk element in the case of business and personal loans is closely tied to business conditions.

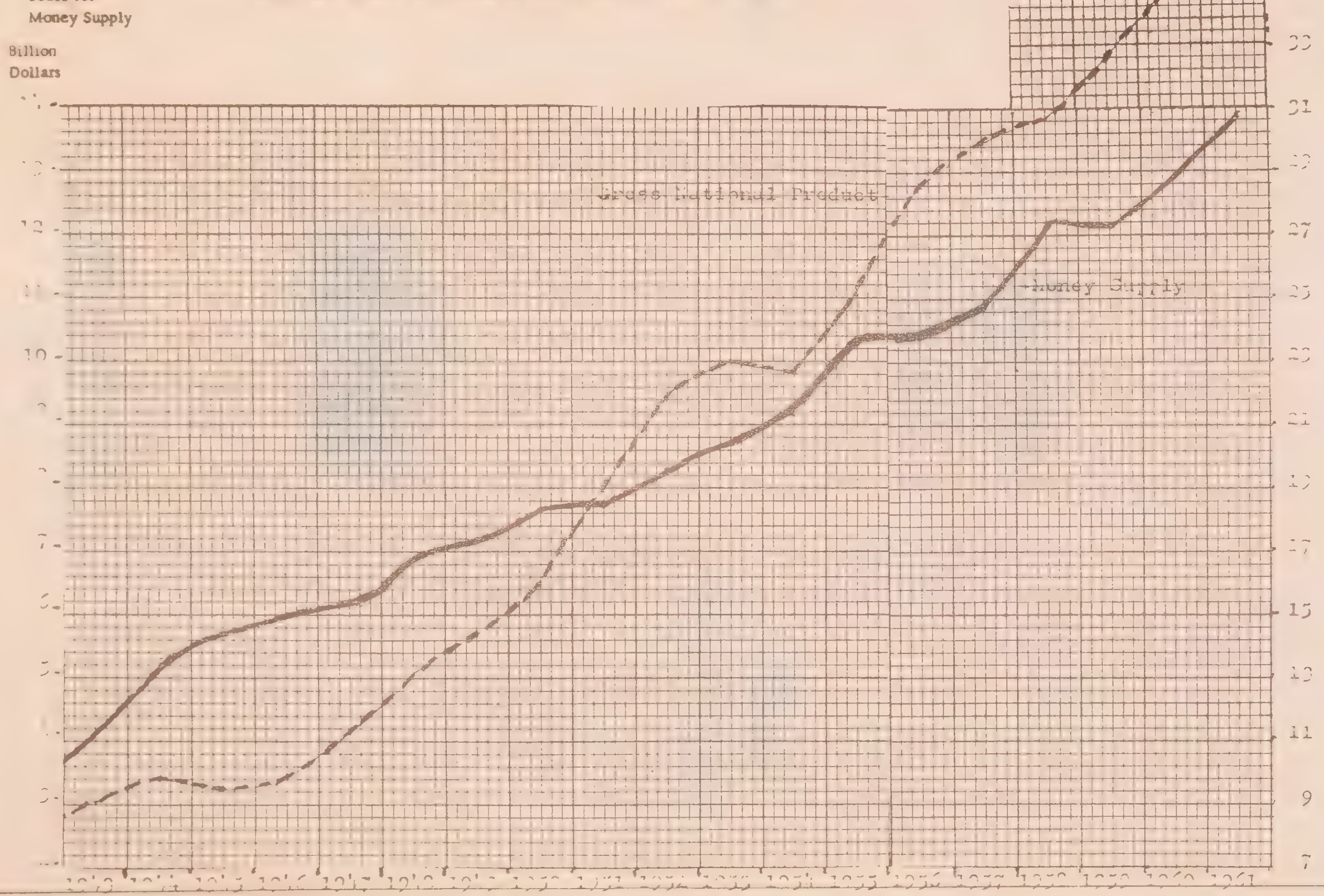
ALL OF WHICH IS RESPECTFULLY SUBMITTED

by ______________________

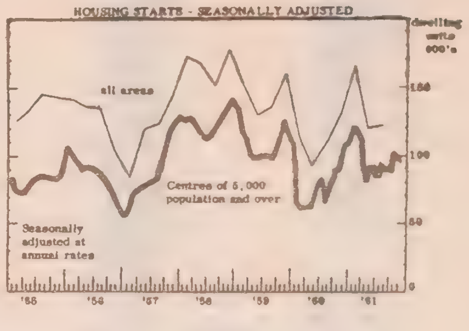
Helen G. Moore (Mrs.A.H.Moore)
Housewife,teacher of economics,economic consultant

GRAPH NO. 1

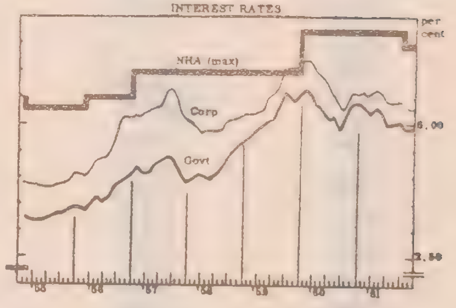
MONEY SUPPLY AND GROSS NATIONAL PRODUCT



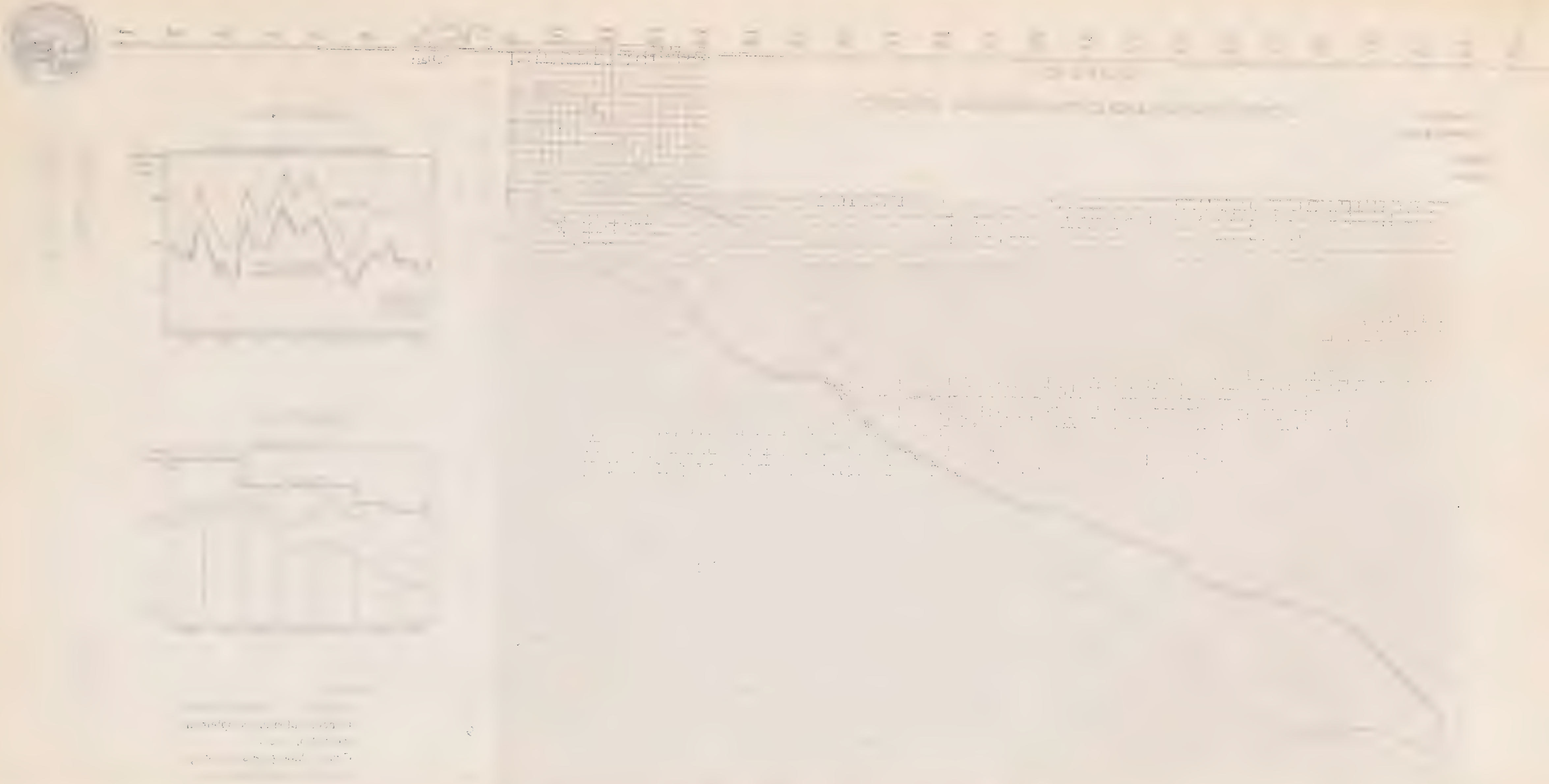
GRAPH NO. 2



GRAPH NO. 3



Sources:
Graph No. 1 - DBS and Bank of Canada, Monthly Supplement
Graphs No. 2 & 3
Central Mortgage & Housing Monthly Supplement, D'61.



Royal Commission
on
Banking and Finance

Hearings
held at
Edmonton

Vol. 5

Date. March 19, 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

Nethercut & Young
Toronto, Ontario

Edmonton, Alberta
March 19th, 1962.

ROYAL COMMISSION ON BANKING

AND FINANCE

I N D E X

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Edmonton,
Alberta, on Monday,
March 19th, 1962

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary,Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

THE CHAIRMAN: I will now call the meeting to order, the meeting of the Royal Commission Banking and Finance opening its first sitting in Edmonton.

It is a very great pleasure, I consider it a very great honour to have with us this morning the Honourable Mr. Manning, Premier of Alberta. Mr.Manning, among your accomplishments has been the phenomenal development of this province over many years and I am sure that any remarks you wish to make will be of very special interest to us.

We have all with pleasure watched developments in this province in many ways, especially during the last few years, the development of the oil industry, and we have also watched with admiration the way the various problems with which you have been faced have been overcome. It is a a very great pleasure to have you with us today. We will welcome any submission that you care to make. It is not necessary, Mr. Manning, to stand.

SUBMISSION OF HONOURABLE E.C. MANNING
PREMIER OF THE PROVINCE OF ALBERTA

HON. MR. MANNING: If I may, sir, I will stand during the first few words. Mr. Chairman, I would like at the outset to let you know how deeply I appreciate your very kind introductory remarks and the comments that you have made with respect to the developments that we have been fortunate enough to see take place in our part of Canada.

THE CHAIRMAN: I will now call the meeting to order, the meeting of the Royal Commission [illegible] banking and finance [illegible] its first sitting in Edmonton.

It is a very great pleasure, I consider it a [illegible] great honour to have with us this morning the Honourable Mr. Manning, Premier of Alberta. Mr. Manning, among your accomplishments has been the phenomenal development of this province over many years and I am sure that any remarks you wish to make will be of very special interest to us.

We have all with pleasure [illegible] developments in this province in many ways, especially during the last few years [illegible] the development of the oil industry, and we have also [illegible] admiration the way the various [illegible] you have been faced have been overcome. [illegible] a very great pleasure to have you with us [illegible] We will welcome any submission that you [illegible] if it is not necessary, Mr. Manning, to [illegible].

SUBMISSION OF HONOURABLE E.C. MANNING

Mr. Chairman and Members of the Commission, I appreciate this opportunity to appear before you for two reasons. First and foremost, I wish to extend to you a warm and sincere welcome on behalf of the Government and the people of Alberta. We attach great importance to the matters you have been commissioned to investigate. We are glad that representative groups of our people are being afforded this opportunity to make known to you their views on pertinent matters relating to banking and finance. We sincerely hope that much permanent good will come from your deliberations and the recommendations you will make.

My second purpose is to offer a word of explanation as to why, as a Government, we will not be making a detailed formal submission to the Commission. Upon receipt of the Terms of Reference governing your deliberations, we made a preliminary survey of the major issues with which we felt a comprehensive submission properly should deal. It was our conclusion that in order to make a worthwhile contribution such a submission should deal in detail with at least the following six interrelated subjects:

1. An analysis of the impact of current monetary and fiscal policies on the Canadian economy with specific recommendations for monetary and fiscal reforms which would effectively induce maximum economic growth and expansion.

2. A study of the extent to which the Canadian economy and standards of living suffer from inadequate financing of consumption with recommendations as to the most effective methods of correcting this deficiency.

3. Factual research into all aspects of credit expansion and contraction to establish the extent to which the monetary requirements of the national economy dictate that credit control should be the responsibility and function of government.

4. An examination of the impact that public and private debt has on the national economy and a projection of present debt trends to determine their future impact and the steps necessary to avert adverse consequences.

5. A survey of the essential social capital requirements of all levels of government and a study of the feasibility of extending the functions of the Bank of Canada to include low-cost loans to finance government-approved capital projects.

6. A study of the fiscal needs created by the constitutional responsibilities assigned to the Canadian provinces by theBritish North America Act to determine the steps necessary to ensure to the provinces financial resources adequate to discharge these responsibilities without impairing provincial autonomy.

Each of these subjects is a broad, comprehensive field in itself. Combined, they constitute a research project of such magnitude that, in our opinion, it could not be satisfactorily completed in less than six to eight months. The intervening time between the receipt of your Terms of Reference and the date scheduled for the filing of formal submissions simply did not permit such a study to be undertaken.

Because these matters have been debated

and discussed in generalities on many occasions over a long period of time, we feel that merely to submit more generalizations would contribute little or nothing to the success of your deliberations. We are firmly of the opinion that the real and important need is not more generalizations but comprehensive detailed analysis which will make possible firm conclusions, backed by factual evidence, and on which positive and workable recommendations can be based.

We sincerely trust that your commission, with the aid of adequate technical and research staff, will be able to make such analysis and arrive at such conclusions and recommendations.

There is one further point I would like to add. The Commission's Secretary has supplied us with a list of matters on which I understand you are desirous of obtaining comparable statistical data from each of the provinces. We appreciate the importance of such information to make possible accurate comparisons when examining matters relating to individual provinces and the Canadian economy as a composite whole. Accordingly, we are preparing and will file with the Commission a statement containing the pertinent statistical data requested and such additional related information as we are able to supply.

May I reiterate the welcome I extended at the commencement of these brief remarks and wish you every success in the onerous task that you have undertaken in the interests of this nation and its people.

Mr. Chairman, those remarks are, I

appreciate, quite brief. However, those matters which I have referred to in the brief will be the subject of a further submission which we will file with the Commission at an early date or if there is anything in this short submission of mine or any other matters on which I can cast a little light or any questions you or your colleagues may wish to ask I will be more than happy to try and answer them.

THE CHAIRMAN: We appreciate very much your remarks, Mr. Premier, and I am sure that some of the members of the Commission will take advantage of your suggestion that questions may be asked. They may have certain points in mind on which you may be willing to elaborate to some extent.

COMMISSIONER HARROLD: I wonder, Mr. Chairman, if I might ask Mr. Manning a question. It may be a rather broad question but he may be able to pin-point it a little. The question would be: Would you be able to give us any answer as to what extent your government policy in financing has been influenced in the province by monetary policy? Perhaps that is a little broad to be answered affirmatively, but listing the various means that you have financed in the past would you say that monetary policy has had an influence on the way you have borrowed your money, the way you have financed and whether you have looked for additional financing?

HON. MR. MANNING: That definitely is a factor that has influenced our pattern of financing here, as I am sure it has in other parts of Canada.

I perhaps should point out that as a province we have not had to borrow any money for

many,many years. We have been on a pay as you go basis as far as our financial economy is concerned. For quite a number of years we were able to provide loans directly to our own municipalities and school districts. Afew years ago their requirements exceeded what we were able to provide from any reserve balance the province had on hand.

To facilitate the method of financing and as a more convenient organization we formed the Municipal Finance Corporation out of which funds were made available to our municipalities, our school boards, our hospitals and other organizations of that sort. Those borrowings are guaranteed by the provincial government.

Now, when the rates on money in Canada rose a few years ago we commenced borrowing in the United States American money on a differential of the extra rate. At that time the differential in extra rates were such that we have been able to see the monetary advantages in borrowing American money whereas others attempt to raise the money in Canada. We have borrowed substantial amounts for our municipalities, schools and hospitals and much of this has been raised in the United States.

I don't know whether that answers your question. Maybe I can enlarge a little bit.

COMMISSIONER HARROLD: These municipal borrowings, do you mean they are handled on a daily basis by the province?

HON. MR. MANNING: The procedure is that the Municipal Finance Corporation discusses applications for credit with those affected. Borrowings are conducted through consultation. We do not give them everything they request. In other words, the mechanics

[illegible] years. We have been on a pay as you go [illegible] as far as our financial economy is concerned. For quite a number of years we were able to provide loans directly to our own municipalities and school districts. A few years ago their requirements exceeded what we were able to provide from any reserve balance the province had on hand.

To facilitate the method of financing and as a more convenient organization we formed the Municipal Finance Corporation out of which funds were made available to our municipalities, our school boards, our hospitals and other organizations of that sort. These borrowings are guaranteed by the provincial government.

[illegible] the rates of interest in Canada rose a few years ago we commenced borrowing in the United States American money on a differential [illegible] the exchange [illegible] that time the differential in [illegible] the [illegible] we have been [illegible] the monetary advantages in borrowing American money where [illegible] attempt to raise the money in Canada we have borrowed substantial amounts for our municipalities, schools and hospitals and much of [illegible] in the United States.

I don't know whether that answers your question. Maybe I can enlarge a little on it.

[illegible] HARRIS: [illegible] municipal borrowings, do you mean they are handled on a [illegible] basis by the province?

[illegible]: The procedure is that the Municipal Finance Corporation discusses applications for credit with the [illegible] directors. [illegible] are [illegible]. We do not give them [illegible]

through which they make application are very carefully scrutinized by the Municipal Finance Corporation and if there are items which we feel are excessive or maybe something which could be dropped altogether they are so advised. There is no policy of borrowing everything they ask.

It is the Municipal Finance Corporation who provides the bond issue in its own name and we loan the money to the individual municipality or school district or hospital on internal arrangements. The other provision that we do have in these is that any muncipality is free to go on the market and borrow by itself if it wishes to do so. We have in recent years a sort of an understanding if they had this arrangement, although we do not expect them to do both. If they are going to use the service of the Municipal Finance Corporation while there is no statutory provision on them borrowing individually by arrangement they have done one of those things, going back to their individual arrangement or going on borrowing from the Municipal Finance Corporation.

COMMISSIONER LEMAN: This is such an interesting problem, do you mind elaborating a little more so I will understand more clearly how it works? The municipality that has used the Municipal Finance Corporation services for borrowing has a private arrangement with that Corporation for servicing that debt.

HON. MR. MANNING: That is right.

COMMISSIONER LEMAN: Its share of the borrowing is made in the agent's name and shows in its financial statement.

HON. MR.MANNING: And it shows as a loan

[illegible] which they make application are very carefully scrutinized by the Municipal Finance Corporation and if there are items which we feel are excessive or maybe something which could be dropped altogether they are so advised. There is no policy of borrowing everything they ask.

It is the Municipal Finance Corporation who provides the bond issue in its own name and [illegible] the money to the individual municipality or school district or hospital on loans and [illegible] terms. The other provision that we do have in there is that any municipality is free to go on the market and borrow by itself if it wishes to do so. We have in recent years a sort of [illegible] if they had this arrangement, although we do [illegible] expect them to do both. If they are going [illegible] the services of the Municipal Finance Corporation while there is no statutory provision on [illegible] borrowing individually by arrangement they [illegible] one of those things, going back to their [illegible] arrangement or going in borrowing from the Municipal [illegible]

[illegible] This is [illegible] interesting practice, as you said [illegible] more so I will [illegible] more clearly how [illegible] the municip[illegible] that has used the Municipal Finance Corporation services for borrowing has a [illegible] arrangement with that Corporation for servicing [illegible] [illegible].

MR. M. [illegible]: That is right.

[illegible]: The state of the [illegible] agent's name and [illegible]

owing to the Municipal Finance Corporation. We have been able to effect a substantial saving in debt service charges to the municipalities by reason of the lower interest rates that the Corporationcan obtain because their issue carries a government guarantee. It is advantageous to any municipality that is not in a strong credit position.

COMMISSIONER LEMAN: As far as the municipality is concerned, now that it costs more in the way of interest because of the change in the exchange rate, is the municipality responsible for the increased cost of interest charges or the Municipal Corporation?

HON. MR. MANNING: No, the municipality is responsible.

COMMISSIONER MacKEEN: I presume it becomes advantageous for the municipalities to borrow from the Municipal Finance Corporation rather than independently, Mr. Manning, due to the not very great interest rates.

HON. MR. MANNING: Also another matter that might be of interest to the Commission too is that since the exchange rate altered one of our last situations, we financed locally, sold the issue locally and financed ourselves in the purchase by our own Treasury Board and we were able to finance better in Canada, in Alberta, rather than going to the New York market. When the Corporation has borrowed I cannot recall when it was payable but this gives an idea of the kind of pattern,the type of rates you can get when you do your borrowing. In other words, to be below it was worthwhile and our efforts to finance are bound in with the rate.

And the prevailing factors in the United States might make a spread when money was excessive.

On borrowing the difference in the United States was sufficient in interest rates and at the the time of borrowing the rate was such that even for a municipality and even with the Canadian dollar the way it is now prevailing we would still be money ahead. If your rates went up that advantage would be eliminated. But even then we were still money ahead borrowing in the United States market in competition with Canada. In other days you thought twice before you went to the United States.

COMMISSIONER BROWN: I wonder maybe because of the exchange rate in connection with the Municipal Finance Corporation have you been able to satisfy all the municipalities or do you have to make a differentiation between certain municipalities and who makes the decision? Is it based on the abilities of the borrower?

THE HON. MR. MANNING: I would not like to go so far as to say that you will satisfy all your municipalities. I think we have been able to service their needs with capital revenues of our own. We have had comparatively little difficulty in sitting down and talking over with them the over-all main requirements to meet the capital needs. It may be that in the process of our sitting down it develops that some of these things for which capital is required in the municipalities are not absolutely necessary and they will be advised by the Corporation. In such a case the Corporation committee has the authority to refuse to loan them more.

COMMISSIONER BROWN: Pursuant to the same line of discussion, have the higher interest

Mr. [illegible]

the prevailing factor in the United States [illegible]

On borrowing the difference in the United States was [illegible] in interest rates and at the [illegible] time of borrowing the rate was such that even for a municipality of a [illegible] in the Canadian dollar the [illegible] is not prevailing we would still be money [illegible] if we had [illegible] went [illegible] would have [illegible] but even then we were still [illegible] about borrowing in the United States [illegible] in connection with Canada. In other days you thought twice before you went to the United States.

I wonder [illegible]

[illegible] commercial [illegible] Financial Finance Corporation have you been [illegible] to satisfy all the municipalities or do you have to make a differentiation between certain municipalities and [illegible] [illegible] based on the abilities of the borrower?

[illegible] I would not like to go so far as to say that [illegible] will satisfy all [illegible] I think we have been able to satisfy their needs with capital revenues of our own. We have had comparatively little difficulty in sitting down and talking over with them the over-all [illegible] requirements to meet the capital needs. It may be that in the process of our sitting down it develops that some of these things for which capital [illegible] in the municipalities are not absolutely necessary and they will be advised by the Corporation. In such a case the Corporation committee has the [illegible] or more

[illegible] in regard to the

rates affected the amounts that municipalities desire? Have municipalities' requests been affected by monetary policies?

HON. MR. MANNING: I would say the higher cost of money has made all levels of government much more conscious of the importance of scrutinizing every capital borrowing they undertake, and to that extent I would say it has reduced the amounts that they otherwise would have been borrowing.

COMMISSIONER BROWN: Is this decision made at council level, or do you think the ratepayers do this when they are voting on a capital bylaw?

HON. MR. MANNING: It is hard to distinguish where the greater impact would be felt. Naturally, the councils are in a position to analyze the details better than the ratepayer who is called upon to vote on a plebiscite, but even at the ratepayer level I think the higher cost of money has made the ratepayer generally more cautious in approving large capital borrowings which they appreciate ends up in their taxes by reason of the debt service charges. It is more realized at the ratepayers' level; at council level it is more of an analysis of what it is going to cost in total in comparison with the asset they are going to get.

COMMISSIONER MacKEEN: You mentioned, Mr. Premier, the loans by the Municipal Finance Corporation were for capital expenditures: Suppose a municipality had to do some deficit financing; how would that be arranged?

THE HON. MR. MANNING: The Municipal Finance Corporation is for capital projects, but quite a number of our municipalities make temporary financing arrangements with their banks

to tide them over the interval prior to these issues being made and the money being made available to them. That is merely a matter of short-term financing after they have made arrangements to borrow money from the Municipal Finance Corporation. They are then able to go ahead with the projects, if they can make arrangements with their own banks.

COMMISSIONER LEMAN: What is the general pattern of the borrowing by the Municipal Finance Corporation? Is it a pool borrowing for a number of municipalities, and are there sinking fund arrangements that are spread over the whole group of municipalities that participated?

THE HON. MR. MANNING: The facilities lend themselves to a great deal of flexibility. The Municipal Finance Corporation goes on the market as a rule two or three times a year. They try to anticipate what the requirements of the municipalities will be for three months or six months in advance, or even a year. They have long-range projects further ahead than it. The reason they try to make these projects as detailed and factual as possible is to keep the Corporation in a position that it can time its issues on the market at the most advantageous time. The loans may be for 25 years, or may be shorter terms. There is a great deal of flexibility depending on what the money is borrowed for and whether it lends itself to long-term or short-term borrowing. Most of them are serialized bonds, so much of the principal being retired each year. The Corporation in addition to that has done a small amount of short-term borrowing. Those have been more in the local issues I spoke of.

COMMISSIONER LEMAN: Does it even lend

itself to special arrangements under which a municipality, if it found itself in difficulty, could make special arrangements with the Municipal Finance Corporation not to meet its share of the ---

THE HON. MR. MANNING: We have had no problems of that kind to date. The loans that have been made to our municipalities from Municipal Finance Corporation are, to the best of my knowledge, all in good standing without any difficulties having arisen. If a municipality was in difficulty they would naturally go and talk it over with the Corporation and work out some arrangements. However, these things have been set up on a very sound basis, and we have had no difficulties of that kind.

COMMISSIONER MACKINTOSH: May I ask if your Treasury branches are in any way affected by monetary policy?

THE HON. MR. MANNING: Only indirectly, Mr. Chairman, because our treasury branches are not banks. They are just what their name implies: They are branches of the Provincial Treasury. They do carry on a deposit and withdrawal service, but they have no credit expansion powers. The effect of monetary policy on them would be only the indirect effect that it may have on people in their attitude towards savings; within the operation of the branches it would be very indirect.

COMMISSIONER MACKINTOSH: The savings are guaranteed by the government?

THE HON. MR. MANNING: They operate a loan programme on individual loans, commercial loans, industrial loans -- that is the big earning branch of the treasury branches. There is one other way that they have been affected by the higher

itself to special arrangements under which a municipality, if it found itself in difficulty, could make special arrangements with the Municipal Finance Corporation not to meet its share of the --

THE HON. MR. MANNING: We have had no problems of that kind to date. The loans that have been made to our municipalities from Municipal Finance Corporation are, to the best of my knowledge, all in good standing without any difficulties having arisen. If a municipality was in difficulty they would naturally go and talk it over with the Corporation and work out some arrangements. However, these [illegible] have been set up on a very sound basis, and we have [illegible] no difficulties of that kind.

COMMISSIONER MACKINTOSH: May I ask [illegible] your Treasury branches are in any way affected by monetary policy?

THE HON. MR. MANNING: Only in [illegible] Mr. Chairman, because our Treasury branches are not banks. They are just what their name implies: they are branches of the Provincial Treasury, [illegible] to carry on a deposit and withdrawal service, [illegible] they have no credit expansion powers. The effect of monetary policy on them would be only the [illegible] effect that it may have on people in their attitude towards savings; within the operation of the branches it would be very indirect.

COMMISSIONER MACKINTOSH: The savings are [illegible]

THE HON. MR. MANNING: They operate [illegible] individual "bank", completely [illegible] -- that is, the bid earning [illegible]

prices of money and the necessity of the banks for a few years to curtail credit: It tended to bring considerably more customers to the treasury branches. But, our loaning capacity is limited because all we can loan is the actual deposits, and even there there has to be retained a fairly substantial cushion to meet the current cash payments, so the total of the loans is limited to the deposits less that necessary reserve. The amount for loans is broken down by the administrative branch for certain types of loans -- a certain percentage to private loans, to agricultural loans, commercial loans, industrial loans and so on.

THE CHAIRMAN: Do you find the net amount of deposits tends to increase from year to year?

THE HON. MR. MANNING: It has increased steadily, I believe, every year since the branches were open.

THE CHAIRMAN: When were they first opened?

THE HON. MR. MANNING: I am speaking from memory, and I think it was about 1938; around that time.

THE CHAIRMAN: When interest rates rise generally as a result of monetary policy, do you increase the rates?

THE HON. MR. MANNING: The loan rates?

THE CHAIRMAN: Yes.

THE HON. MR. MANNING: Yes, they have been increased. Some of our categories would carry a rate perhaps a little under the commercial banks, but very little; there is not too much difference.

THE CHAIRMAN: Do you find that attracts more deposits as the rates go up, or does it make much difference?

THE HON. MR. MANNING: I would say it has some effect. I don't think it has a big effect because these things have happened right across the board -- in the banks as well as the treasury branches -- so it is a relative matter.

COMMISSIONER GIBSON: Your changes in interest rates are pretty much in line with the bank changes in interest rates?

THE HON. MR. MANNING: Yes. As I said, we are under on some categories a little bit -- maybe half of one per cent or one per cent.

COMMISSIONER GIBSON: But they usually change when the chartered banks change?

THE HON.MR. MANNING: That is right.

COMMISSIONER LEMAN: Mr. Premier, in your introductory remarks you cover quite a few of the subjects you feel the Commission should look into. I would like to ask you a question about No. 5 where you say:

> "A survey of the essential social capital requirements of all levels of government and a study of the feasibility of extending the functions of the Bank of Canada to include low cost loans to finance government-approved capital projects."

You make the point that it would take a long time to study these subjects and document them properly, but in that particular paragraph you seem to have an idea there to suggest: Would you elaborate on that?

THE HON. MR. MANNING: Mr. Chairman, this is a point that we have given a lot of consideration to in the last number of years. First of all, I

THE HON. MR. MANNING: I would say it has some effect. I don't think it has a big effect because these things have happened right across the board -- in the banks as well as the treasury branches -- so it is a relative matter.

COMMISSIONER GIBSON: Your changes in interest rates are pretty much in line with the bank changes in interest rates?

THE HON. MR. MANNING: Yes. As I said, we are under on some categories a little bit -- maybe half of one per cent or one per cent.

COMMISSIONER GIBSON: But they usually change when the chartered banks change?

THE HON. MR. MANNING: That is right.

COMMISSIONER LEMAY: Mr. Premier, in your introductory remarks you cover quite a few of the subjects you feel the Commission [illegible] into. I would like to ask you a question about No. 5 where you say:

"A survey of the [illegible] social capital requirements [illegible] of government and a study of the feasibility of extending the functions of the [illegible] of Canada to include low cost loans to finance government-approved capital projects."

You make the point that it would take a long time to study these subjects and document them properly, but [illegible] to have [illegible]

THE HON. MR. MANNING: Mr. Chairman, this is a point that we have given a lot of consideration [illegible] years. First of all, I

perhaps should define what we mean by "social capital". I would put in that category the essential capital projects of our municipalities, our schools, our hospitals and our provinces. The thought we have in mind is that at the present time there are large borrowings for these capital purposes taking place in the same money markets to which industry and commerce -- all lines of business -- must also lookfor the capital necessary for economic and industrial growth and development. I think it would be agreed that one of the things that tend to force up the price of money -- certainly on the Canadian market a few years ago -- is that there was not enough available capital that could be supplied by the Canadian money market to meet the combined requirements of governments for these social capital purposes and industrial and commercial development in that period of expansion. The thought we have if it was feasible to work out an arrangement whereby the Bank of Canada could loan money for these purposes -- and we would not suggest they should loan directly to municipalities or schools -- but that each province could establish some designated agency. In our case we would simply use the facilities of this Municipal Finance Corporation, or some comparable organization to that, which would then do the local borrowing, but with the initial funds provided by the Bank of Canada. We had in mind as an area of credit expansion on the part of the Bank of Canada.

In our view there would be two definite advantages to that programme. In the first place, that money if it were made available at v[illegible]

cost -- and we feel there are some goo[illegible]

[illegible] should define what we mean by "social capital". I would put in that category the capital projects of our municipalities, our schools, our hospitals and our provinces. The thought we have in mind is that at the present time there are [illegible]

[illegible] the same money markets to which industry and commerce -- all kinds of business -- must also [illegible]

[illegible] growth and development, [illegible]

[illegible] the price of money -- [illegible] Canadian market [illegible] -- [illegible] was not enough available capital that could be supplied by the Canadian money [illegible]

[illegible]

[illegible] development in that period of expansion, [illegible] we have [illegible] to work out [illegible] whereby the Bank of Canada could [illegible] money [illegible] purposes -- and we [illegible] not suggest they should loan directly to municipalities or schools -- but that each province could establish some [illegible] agency. In our case we would simply [illegible] of this Municipal Finance Corporation [illegible] comparable organization to that, which [illegible] to the local municipalities, [illegible]

[illegible] there would be no ceiling [illegible]

[illegible] programme. In the first [illegible]

for doing that, because this is not the industrial or commercial field; it is in the field providing essential public institutions -- you could provide for your people just about all the advantages of a pay-as-you-go type of programme without them having to raise the capital in advance to pay for the project.

If I could illustrate it this way: If you build a million dollar school today, and let us say for simplicity you are able to borrow the money at 5 per cent, and amortize it over 20 or 25 years, by the time the school is paid for you have paid about $ 2 million. If, on the other hand, that money could be made available through some facilities of this kind, and let us again say for simplicity just at cost -- with maybe a small service charge to carry the administration -- the total cost to your taxpayer could probably be reduced from $ 2 million to $1,200,000 or something like that, which is very close, in our view, to them raising the money in advance and doing the thing on a straight cash basis, except that they have had the advantage of the facility before they have to raise the money and pay for it. It always seems to be easier to raise the money if you have the thing first, rather than raise the money first. In our view, it would affect very substantially debt service charges on schools, hospitals, and at the municipal level, which means an easing of the burden of taxation.

The second advantage we felt would arise from this is that having eliminated from the money market the capital borrowings of governments for these social capital purposes, you would enable industry and commerce to get their essential funds

[illegible] -- in the field providing essential public institutions -- you could provide for your people just about all the advantages of a pay-as-you-go type of programme without them having to raise the capital in advance to pay for the project.

If I could illustrate it this way:

If you build a million dollar school today, and let us [illegible] at [illegible] [illegible] years, by the time the school is paid for you have paid about $ 2 million. If, on the other hand, that money could be made available through some facilities of this kind, and let us again say [illegible] just at cost -- with maybe a small service charge to carry the administration -- the total cost to your taxpayer could probably be reduced from $ 2 million to $1,200,000 or something like that, which is very close, in our view, to them raising the money in advance and doing the thing on a straight [illegible] basis, except that they have had the [illegible] of the facility before they have to raise the money and pay for it. It always seems to be easier to raise the money if you have the thing first, rather than raise the money first. In our view, it would affect very substantially debt service charges on schools, hospitals, and at the municipal level, which means an easing of the burden of taxation.

[illegible]

from this is that having eliminated from the money market the capital borrowings of governments for these social capital purposes, you would enable [illegible]

without the competition of governments in this field, which we feel could result in lower cost money for commercial and industrial development. If that were possible, then you have a certain saving in the cost of production of these industries and business because their money costs them less, which in turn reflects on the general cost of living.

Coming back to the suggestion that if this were done as a function of the Bank of Canada, it may be one of the channels through which there could be an expansion of the national credit for this purpose. We appreciate that gives rise to the fear that as the credit created for this fund went into circulation, found its way back into the chartered banks, that it could result in a further credit expansion and create an inflationary pressure. We feel there are two or three things that would perhaps safeguard the economy against that. In the first place, if we can take some of the cost off for industry and commerce, thereby encouraging perhaps a more rapid industrial and commercial expansion, that in turn results in an increased volume of production which makes the economy able to absorb to some extent, at least, the increase that would have taken place in the national credit as a whole. In the second place, if it was necessary for the government to intervene to correct any inflationary pressures, the suggestion we have been exploring is whether or not that could be done by increasing the ratio of cash reserves that the chartered banks are required to have behind their own credit expansion. It would be a means by which the government, if necessary, could control the over-all volume of currency and credit in circulation and still permit

without the competition of governments in this field, which we feel could result in lower cost money for commercial and industrial development. If that were possible, then you have a certain saving in the cost of production of these industries and business because their money costs them less, which in turn reflects on the general cost of living.

Coming back to the suggestion that if this were done as a function of the Bank of Canada, it may be one of the channels through which there could be an expansion of the national credit for this purpose. We appreciate that gives rise to the fear that as the credit created for this fund went into circulation, found its way back into the chartered banks, that it could result in a further credit expansion and create an inflationary pressure. We feel there are two or three things that would perhaps safeguard the economy against that. In the first place, if we can take some of the cost for industry and commerce, thereby encouraging perhaps a more rapid industrial and commercial expansion, that in turn results in an increased volume of production which makes the economy able to absorb to some extent, at least, the increase that would have taken place in the national credit as a whole. In the second place, if it was necessary for the government to intervene to correct any inflationary pressures, the suggestion we have been exploring is whether or not that could be done by increasing the ratio of cash reserves that the chartered banks are required to have behind their own credit expansion. It would be a means by which the government, if necessary, could control the over-all volume of currency and credit in circulation and still permit

this area to be an area in which the Bank of Canada by credit expansion could make these funds available.

COMMISSIONER BROWN: How much would be involved in that?

THE HON. MR. MANNING: You mean volume of money?

COMMISSIONER BROWN: Yes.

THE HON. MR. MANNING: It would be very substantial if you take the aggregate of the banks, of the municipalities, of schools and hospitals and the province for essential capital projects. I haven't figures in front of me, but it is certainly a very substantial sum of money. But the thought that has been behind our consideration of this approach is that we are frankly disturbed by the tremendous cost represented by the interest charges on these essential social capital borrowings, all of which is getting into our taxation structure, and, in turn, into the price structure. Having in mind the idea that Canada is pricing herself out of the competitive markets of the world, it seems to us this is one way we could get out of our price structure some of these debt service charges represented by the rates of interest these government agencies must pay if they are going into competition with these commercial and industrial capital funds.

COMMISSIONER BROWN: You picture the amount presently involved, and not the expansion?

THE HON. MR. MANNING: I am thinking primarily of the amount presently involved.

COMMISSIONER LEMAN: Are you indirectly here, Mr. Premier, trying to insulate the financing of these social capital requirements from the market

[illegible]

[illegible]

COMMISSIONER BROWN: How much would be involved in that?

THE HON. MR. MANNING: You mean volume of money?

THE HON. MR. MANNING: [illegible] very substantial if you take the aggregate of the banks, of the municipalities, of schools and hospitals and the province for essential capital projects. I haven't figures in front of me, but it is certainly a very substantial sum of money [illegible] that has been behind our consideration of this approach is that we are frankly disturbed by the [illegible] cost represented by the interest [illegible] on these essential social capital [illegible], all of which is getting into our taxation structure.

[illegible] the idea that [illegible] is [illegible] of the competitive markets of the world, [illegible] to us this is one way we could get out of [illegible] price structure some of these cost [illegible] represented by the rates of interest [illegible] agencies must pay if they are going [illegible] with these commercial [illegible]

amount presently involved, and not [illegible]

THE HON. MR. MANNING: I am thinking primarily of the amount presently involved.

[illegible] Are you [illegible] [illegible], trying to insulate the financing [illegible] on the part [illegible]

place to a certain extent?

THE HON. MR. MANNING: That is true; that would be the effect.

COMMISSIONER LEMAN: The Federal Government has seen fit, or found it possible to insulate its own borrowing from the market place requirements without resort to inflationary policies, itself, has it?

THE HON. MR. MANNING: I believe that is their conclusion. I do not know whether I would agree with it.

COMMISSIONER GIBSON: In effect, sir, you would relate or tie to the costs of borrowing for social capital purposes the cost which the Federal Government had to pay for money, or something approximately like that?

THE HON. MR. MANNING: I feel it could be even less than that if it were done directly as an expansion of the national credit by the Bank of Canada. There may be arguments as to whether the interest rates should be that low. My own view is that the advantages outweigh the disadvantages. Again, coming back to our concern that I think we all share, that anything that can be done to try and hold down this spiraling price level we face in Canada today should be done.

COMMISSIONER GIBSON: You are saying now the Federal rate has to come down? In other words, the whole structure of rates for these purposes?

THE HON. MR. MANNING: In our thinking on this proposal we would make the distinction, I think, between Federal borrowings and the borrowings of these provincial,municipal,schools, and so on.

The Federal Government is in a little different position, and from the standpoint of the investing public there are certain advantages for the investing citizens investing in Federal securities. That, it seems to us, is the best level for them. The prime concern is when you get down to the municipal level especially, when the municipal taxation is getting to be more and more a debt service charge on current expansion, and which they cannot avoid -- take a city such as this city here that has doubled its population in the last few years: No matter how cautious they are, there has to be the expansion of utilities and facilities of one kind or another that cannot be deferred.

These are the things which are piling up, these big debt service charges which are falling so heavily on the taxpayer.

COMMISSIONER LEMAN: Would it be unfair to characterize your idea as an easy money policy?

HON. MR. MANNING:: I believe it could correctly be called easy money as far as this area is concerned. If the measure of control that was exercised by increasing the cash reserves that the credit bank would require for their credit extending the over-all borrowing then I would deem it not an easy money policy any more than it is under normal conditions.

COMMISSIONER BROWN: It seems to me there are two things involved. One is the Bank of Canada and the easy money aspect of it. Would you care to make any comment on how easy money borrowing might be accomplished by a form of cash credits?

HON. MR. MANNING: I think that would be

The Federal Government is in a little different position, and from the standpoint of the investing public there are certain advantages for the investin citizens investing in Federal securities. [illegible], it seems to us, is the best level for them.

The prime concern is when you get down to the municipal level especially, when the municipal taxation is getting to be more and more [illegible] service charge on current expansion, and which they cannot avoid -- take a city such as this city here that has doubled its population in the last few years: No matter how cautious they are, there [illegible] to be the expansion of utilities and facilities of one kind or another that cannot be deferred.

These are the things which are [illegible] up, these big debt service charges which are [illegible] so heavily on the taxpayer.

COMMISSIONER [illegible]: Would it be [illegible] to characterize your idea as an easy money policy?

HON. MR. HAMILTON: I believe it could correctly be called easy money as far as this [illegible] is concerned. [illegible] the measure of control that [illegible] exercised by increasing the cash reserves [illegible] credit bank would require for their credit extension, the over-all borrowing then I would [illegible] it not [illegible] easy money policy any more than it [illegible]

COMMISSIONER BROWN: It seems to me there are two things involved. One is the [illegible] of Canada and the easy money aspect of it. Would you care to make any comment on how easy money

possible but in my view it would not achieve the same results because unless you have an initial capital fund by which these assets are provided at a lower cost it seems to me that to try and offset the effects by making tax rebates we get to the point on making tax rebates that we have to raise that somewhere else and inour estimation we simply go out and isolate this category of borrowing in the money market and we provide the capital for it by expansion of the market credit through the Bank of Canada. Thereby I think that you reason that the cost of money for other forms of borrowing would not benefit by lesser competition in the money market, which is to let us trade the private capital for established capital and this operation would force the price of money up to substantially use the service.

COMMISSIONER GIBSON: Any benefit you would achieve would be offset by reducing too much by a tightening in bank credit?

HON. MR.MANNING: That is right and remembering that a programme of this kind, the change stands up to handle the loss you have to have similar powers to what we have in the Municipal Finance Corporation. You could not let the money land-slide, it would be a matter of somebody having authority to say no in order that the benefit was held so things would be as substantial a contribution.

I might interject, Mr. Brown, on that theory where you elect a market in the United States to borrow the idea is to let the cost get up so high that everybody thinks three times before they borrow. I suggest that is not a good thing because

my view it would not achieve the same results because unless you have an [illegible] capital fund by which these assets are provided at a lower cost it seems to me that to try and offset the effects by making tax rebates we get to the point of making tax rebates that we have to raise that somewhere else and income [illegible] we simply go out and inflate this category of [illegible] in the money market and we provide the capital [illegible] by extension of the market credit through the bank [illegible]. Therefore I think that you reason that the cost of money for other forms of borrowing would not benefit [illegible] in the money market, which is to [illegible] the private capital for [illegible] and that operation would reduce the price of [illegible] to substantially [illegible] the services.

COMMISSIONER [illegible]: And [illegible] would achieve would be [illegible] by [illegible] in bank credit.

MR. [illegible]MAN: [illegible] That is right and remembering that [illegible] of this kind, the things stand up to [illegible] you have to have [illegible] powers to [illegible] in the [illegible]. You [illegible] not [illegible] the [illegible], it [illegible] somebody [illegible] authority [illegible] that the [illegible] was held [illegible] would [illegible] [illegible].

[illegible] interject, Mr. [illegible], [illegible] when you start a market [illegible] to borrow [illegible] is [illegible] up so

[illegible] they

that penalizes particularly the municipalty which has to borrow the money. The municipality has to have the money at whatever price so in the process the municipality will be penalized and the public is penalized. It seems to me much better to give someone authority to say no and then you do not have to penalize the ones who have to borrow the money.

COMMISSIONER LEMAN: Your suggestion here is that some authority would have an over-all concept of what was happening.

HON. MR. MANNING: In Alberta the municipalities hold their line of credit by dealing with the Municipal Finance Corporation. That goes a little further in the case of the authority that you have in mind, that they have the power to say no. Even through the social end of the requirement the Municipal Finance Corporation for instance has this authority to say no and it can scrutinize municipal budgets and discuss them.

COMMISSIONER LEMAN: Would you introduce the same concept here that if someone in an important sector of the country wanted to borrow more than this authority approved would that party have the power to go to the market?

HON. MR. MANNING: In my opinion it would work even better with the regulatory power at a high level so that the Bank of Canada would have to see what would be the credit given and then the local authority in each province would act as an agency on behalf of the municipalities, the schools, hospitals. It is the province which would have to have authority as our Municipal Finance Corporation and the only way the central authority could grant a loan would be first with

[illegible] on particularly the municipality which has to borrow the money. The municipality has to have the money at whatever price so in the process the municipality will be penalized and the public is penalized. It seems to be much better to give someone authority to [illegible] and then [illegible] have to penalize the ones who have to borrow the money.

[illegible] is that some authority would have an over-all concept of what was happening.

HON. MR. MANNING: In Alberta the municipalities held their line of credit by dealing with the Municipal Finance Corporation. That goes a little part way in the case of the authority that you have in mind, that they have the power to [illegible], [illegible] the control end of the people [illegible] Finance Corporation for instance [illegible] to say [illegible] and it out [illegible] and discuss them.

CO-CHAIRMAN LAMONTAGNE: Would you think the same concept there that if someone in an important sector of the country wanted to borrow money that this authority [illegible] would that [illegible] power to go to the market?

HON. MR. MANNING: In my opinion it would work even better with this [illegible] at a higher level so that the Bank of Canada would have to see what would be the overall picture and then the local authority in each province [illegible] act as an agency on behalf of the municipalities, the schools, hospitals. It is the province which would have to have authority as our Municipal Finance Corporation [illegible] we [illegible] the central authority could [illegible]

approval locally.

COMMISSIONER BROWN: This would involve education on the whole, that is, schools, universities. I wonder how realistic one could be to think that the provinces would fall in line particularly where education is concerned?

HON. MR. MANNING: The only observation I can make there is that I frankly think the possibility of getting co-operation in the field of education would be much greater than areas of capital construction. I do not think there is perhaps the same concern about some forms of providing capital funds for construction as there is in the area where you get more into the control of education itself.

COMMISSIONER BROWN: What it really means is, can a decision be made by a corporate council as to what the provinces need in the way of capital level and as to how much each province is to have.

HON..MR. MANNING: My own feeling is that should prevail at the Federal level. I think if the provinces were made responsible for their own peculiar questions within the province but the government of Canada in the form of the Bank of Canada direct the scheme. We have no objection to a co-operative council but I think it is just another middle man in the development.

COMMISSIONER BROWN: I was wondering how co-operative they would be as far as the provinces are concerned.

THE CHAIRMAN: Well, after all there is generally some difficulty in getting complete co-operation amongst the provinces.

HON .MR. MANNING: And that is one of the reasons why I have not too much confidence in a

COMMISSIONER BROWN: This would involve education on the whole, that is, schools, universities. I wonder how realistic one could be to think that the provinces would fall in line [illegible] where education is concerned?

HON. MR. MANNING: The only observation I can make there is that I frankly think the prospects of getting co-operation in the field of education would be much greater than areas of capital [illegible]. I do not think there is perhaps the same concern [illegible] of providing capital funds for construction [illegible] in the [illegible] into [illegible].

COMMISSIONER [illegible]: [illegible] it not, [illegible] So, can a [illegible] be made by [illegible] as to what the provinces need in the way of capital level and [illegible] each province [illegible].

HON. MR. MANNING: [illegible] that should be provided at the federal level, [illegible] if the provinces were [illegible] responsible [illegible] own peculiar conditions within [illegible] provinces [illegible] the government of Canada in the field [illegible] of [illegible] to [illegible] co-operative council but I [illegible] another middle [illegible].

COMMISSIONER [illegible]: [illegible] how co-operative they would be on [illegible].

THE CHAIRMAN: [illegible] there is generally some difficulty in getting complete co-operation among the provinces.

[illegible]

the [illegible]

co-operative council.

COMMISSIONER MacKEEN: You might get a lot of co-operation with 2 per cent money.

THE HON. MR. MANNING: I am theorizing but I would think that the Federal Government in a matter of this kind after having determined with the Bank of Canada any demand of an income nature could work out some formula for allocating the monies available. They might release it to populated areas or any one of those things. After all, it is loans, it is not in the same category where they have subsidies.

COMMISSIONER MacKEEN: In a period of tight money you would have two authorities lending money, one in Ottawa and one in the provinces. On your suggestion hospitals, schools, bridges and so forth, the provinces would be entitled to spend the money.

HON. MR. MANNING: Well, I think the two authorities are inevitable for this reason. Certainly the Federal authority or the Bank of Canada should not be involved with hospitals, schools or municipalities. They could see only that some of these constituted provincial authorities get the local distribution for the purposes of schools, hospitals and other municipal projects.

COMMISSIONER MacKEEN: Would there be a tendency,would you think, in a period of tight money to differentiate between areas according to whether they were depressed or, such as Alberta, pretty prosperous compared to, you might say, some of the eastern provinces and the amount made available for expenditures of that nature?

HON. MR. MANNING: That factor would

COMMISSIONER JACKSON: You might get a lot of co-operation with 2 per cent money.

THE HON. MR. MANNING: I am theorizing but I would think that the Federal Government in a matter of this kind after having determined with the Bank of Canada any degree of an income nature could work out some formula for allocating the [illegible] [illegible] areas or any one of these things. After all, it is loans, it is not in the same category where they have subsidies.

COMMISSIONER [illegible]: [illegible] that money you would have two [illegible], [illegible] money, one in defence and one in the provinces. On your suggestion hospitals, schools, bridges and so forth, the provinces would be entitled to spend the money.

[illegible]: Well, I think the two authorities are [illegible] for this [illegible]. Certainly the federal authority of the Bank of Canada should not be involved with [illegible], [illegible] or anything of this. They could [illegible] [illegible]

local [illegible] for the [illegible] of schools, hospitals and other municipal projects.

be a tendency, would you think, in a period of tight money to differentiate between areas according to whether they were depressed [illegible] pretty prosperous compared to, you think [illegible]

undoubtedly arise but it is not a factor which I think should be given any weight in programmes of this sort and that any expansion that we can bring about in Canada benefits the Canadian economy as a whole and it seems to me if it is dictated or even directed just to your distressed areas then we are introducing another thing into the plan which detracts from its over-all purpose. I suppose it really does not matter whether the assistance invariably takes place in an area that is distressed or not, it is contributing to the gross national product and the economy of the country which I think would be the prime purpose behind a programme of this kind.

COMMISSIONER LEMAN: Mr.Manning, going back now from paragraph 5 to paragraph 3 there is a hint there also that you probably have some idea to submit to us when you say:

> "... establish the extent to which the monetary requirements of the national economy dictate that credit control should be the responsibility and function of government."

To some extent it is admitted that credit control is the responsibility and function of government. What are you suggesting to us there, that it should be even more so or less so?

HON. MR. MANNING: Mr. Chairman, the thought behind this is that as our economy becomes more and more complicated and inter-related the relationship between fiscal policy of governments and monetary policy of our financial institutions inevitably become closer related. Governments would be really affected, in my opinion, much more

undoubtedly arise but it is not a factor which I think should be given any weight in programmes of this sort and that my experience that we can bring about in Canada benefits to the Canadian economy as a whole and it seems to me, if it is directed, or even directed just to your distressed areas, then we are introducing another [illegible] into the [illegible] which detracts from its over-all purpose. I suggest it really does not matter whether the assistance invariably takes place in an area that is distressed or not. It is contributing to the gross national product and the economy of the country which I think would be the proper purpose behind a programme of this kind.

Q. [illegible] To be [illegible], going back now from paragraph 5 to paragraph 8 there is a hint there also that you probably have some idea to submit to us when you say,

"... affecting the extent
to which the [illegible]
of the [illegible] economy [illegible]
[illegible] the [illegible] responsibility [illegible]
[illegible]."

Is [illegible] that [illegible] responsibility [illegible] of government, what are you suggesting to us here, that it would be [illegible]?

than they formerly were by the monetary policies of the banking institutions of Canada because governments, whether they like it or not, are mixed up far more with economic factors than was the case in earlier years. By the same token governments today are big spenders, they are big borrowers and this in turn produces a more powerful impact on the programmes into which our banking systems have to be fitted. For that reason it does seem to us that probably this evolution has created a situation where governments inevitably have got to exercise a greater part in the monetary policy of the country as well as the fiscal policy. I quite agree that today in the Bank Act they lay down rules, restrictions, certain terms and practices within which monetary policy is ascertained, but I think that they personally should be progressively increased which really means a higher measure of control.

COMMISSIONER HARROLD: Mr. Chairman, there is one area that has not been covered here. I think Mr. Manning suggested as far as the practice is concerned it is practically non-existent out here. There has been nothing said so far about provincial crown corporations. Would you care to say a word about what crown corporations there are in Alberta and how they are financed?

HON. MR. MANNING: The major one is the Alberta Government Telephones which is a large institution and has been in operation for many years. It operates as a complete, independent corporate body. It floats its own debentures. It has had no difficulty whatever in raising its funds. These borrowings, incidentally, do carry

[illegible] merely were by the monetary policies of the banking institutions of Canada because governments, whether they like it or not, are mixed up far more with economic factors than was the in earlier years. By the same token government today are big spenders, they are big borrowers and this in turn produces a more powerful impact on the programmes into which our banking systems [illegible] to be fitted. For the reason I think it seems to us that probably the evolution [illegible] situation where governments inevitably have got to exercise a greater part in the monetary policies of the country as well as the fiscal policy. I quite agree that today in the Bank Act they lay down rules, regulations, certain [illegible] within which monetary policy is established, but I think that they gradually should [illegible] increases which really means a larger measure of control.

[illegible]: Mr. Chairman, there is one area that has not been covered here, and that [illegible] as far as [illegible] concerned [illegible] constitutionally [illegible] [illegible] and how they are financed.

HON. MR. MANNING: The major one is the Alberta Government Telephones which is a large institution and has been in operation for many years. It operates as a completely independent corporate body. It fixes its own rates, [illegible] with whatever is required [illegible]

government guarantee. The last issue that the Alberta Government Telephones put out was sold actually in the province using the treasury branch facilities. That is the major large provincial crown corporation we have in Alberta.

THE CHAIRMAN: Are all the telephones in Alberta within that system?

HON. MR. MANNING: No, the city of Edmonton operates its own telephone system and the rural are not in the Alberta Government Telephone system.

THE CHAIRMAN: Are the rural lines run along the lines of co-operatives?

HON. MR. MANNING: Yes.

COMMISSIONER GIBSON: Mr. Manning, your comments on the presentation which youare going to make are very interesting and I am going to ask you another question about one of them, No. 4:

> " ... of the impact that public and private debt has on the national economy and a projection of present debt trends to determine their future impact and the steps necessary to avert adverse consequences."

I take it you think this is the number four problem that we are facing in looking ahead, this national economic growth and expansion. You do not mention, for example, here the problem of stability of money and other sorts of objectives of full employment. Would you care to comment on this?

HON. MR. MANNING: Well, I do feel that No. 4 is at the very heart of our major problems in Canada today where you are discussing problems such as unemployment or social standards, living

standards, primarily these things all come back to the extent of the expansion that takes place in our national economy. In our view to talk about trying to solve unemployment by governments creating jobs is just playing around the surface of the problem. For every job that government programmes create there are possibly 1,000 created by industry if you are going to have a high level of employment. And what we had in mind in this No. 3 is that to whatever extent the monetary and fiscal policy in operation in Canada -- and by "in Canada" I think of the whole of Canada -- the tax structure, availability of capital which we have discussed under these other headings, availability of operating capital -- all these things which have a bearing on the rate of stability and the growth of Canadian industry are good and important influences as to whether you are going to have a prosperous Canada or not. And for that reason we feel that trying to expand the economy through government created jobs rather than through industry by the manipulation of the monetary and fiscal policies has the result of discouraging expansion in some areas.

COMMISSIONER LEMAN: A little further down you refer to inadequate financing of consumption. What do you believe right now is one of the most important objectives to achieve, a high rate of savings in the country, or a high rate of consumption?

HON. MR. MANNING: I would say a higher rate of consumption because over all our capital output -- let me go back one step further. If we talk about the expansion of the national economy in the sense of greater trade growth, greater economic growth there is no point in building plants

[illegible], primarily these things all come back to the extent of the expansion that takes place in our national economy. In our view to talk about trying to solve unemployment by governments creating jobs is just playing around the surface of the problem. For every job that government programs create there are possibly 1,000 created by industry if you are going to have a high level of employment. And what we had in mind in this No. 3 is that to whatever extent the monetary and fiscal policy in operation in Canada -- and by "in Canada" I think of the whole of Canada -- the tax structure, availability of capital which we have discussed under these other headings, availability of operating capital -- all these things which have a bearing on the rate of stability and the growth of [illegible] industry are good and important influences as to whether you are going to have a prosperous [illegible] or not. And for that reason we feel that trying to expand the economy through government created jobs rather than through industry by the manipulation of the monetary and fiscal policies has the result of discouraging expansion in some areas.

COMMISSIONER [illegible]: A little further [illegible] refer to inadequate financing of consumption. What do you believe right now is one of the most important objectives to achieve, a high rate of savings in the country, or a high rate of consumption?

HON. MR. MANNING: I would say a higher rate of consumption because over all our capital output -- let me go back one step further. If we talk about the expansion of the national economy in the sense of gr

and developing industry, providing monetary assistance for industry to that extent unless those industries have larger markets for their output and where they are not dependent and have a consumer demand whether it be locally or abroad.

Our feeling is that abroad the only way we can stimulate the factor of consumer demand there is to try and come to grips with these rising price structures which is knocking us out of this field in the consuming areas. Domestically, if there is anything to be done to stimulate and enhance the effect of consumer demand within Canada, domestically that is going to create a market for the products of industry which in turn will invite greater expansion.

Our thought frankly is that traditionally the greatest measure of attention that industry has been paid is how you are going to build a plant, how you can get trained personnel, how you can improve techniques, how you can improve production. There has been much more attention paid to that than there has been to the point of keeping an effective consumer demand on a parallel with that increased production. There is no use manufacturing $2 million worth of goods when the people can only buy $ 1 million.

COMMISSIONER LEMAN: But your paragraph also says that the economic expansion of the consumption is only half as high a level of consumption as that of durable goods. Do you feel that that is regarded consciously by the durable goods?

THE HON. MR. MANNING: I think that is a fact, but I would go much further than that. I appreciate this is an extremely unorthodox thing

Tetlow et al. Hearing
Toronto, Ontario

and developing industry, providing monetary assistance for industry to that extent unless these industries have larger markets for their output and where they are not dependent and have a consumer demand whether it be locally or abroad.

Our feeling is that [illegible] the only way we can stimulate the factor of consumer demand there- in to try and come to grips with these rising price structures which is knocking us out of this field in the consuming areas. Domestically, if there is anything to be done to stimulate and on [illegible] the effect of consumer demand within Canada, domestically that is going to create a market for the products of industry which in turn will involve [illegible]

Our thought frankly is that traditionally the greatest measure of attention that industry has been paid is how you are going to build a plant, how you can get [illegible] personnel, how you can improve techniques, how you can improve production. [illegible] that [illegible] has been [illegible] to [illegible] effective consumer demand on [illegible] increased production. There is no use manufacturing $2 million worth of goods when the people can only buy $1 million.

COMMISSIONER LEMAN: But your paragraph [illegible] that the economic expansion of the consumer is only half as high a level of consumption as that of durable goods. Do you feel that that is regarded consciously by the durable goods?

THE HON. MR. MANNING: I think that [illegible] could go much further than that.

I appreciate this is an extremely unorthodox thing

to say, but as automation increases and our production capacity in industry increases without the comparable increase in employees required, and so on, because of automation particularly, that we have to devise means of stimulating or increasing the buying power of people to offset the increased production for which there is not going to be buying power put in their hands by reason of work and wages, because there are less people employed for more production as we become highly mechanized. It may well be the day will come that as a nation we will have to pay as much attention to the direct financing of consumption as we have been trying to give in the past to the direct financing of production.

COMMISSIONER GIBSON: Going back to Point No. 1, you speak of specific recommendations for monetary and fiscal reforms, and you mention tax incentives in general. Have you anything more particular in mind in talking about fiscal reforms?

HON. MR. MANNING: I would hesitate to attempt to outline a specific case, but I could perhaps clarify the generality to this extent: Those forms of taxation which tend to penalize industrial expansion are, of course, the ones that in our view we ought to take a long hard look at. We are not suggesting we will say, "We will wipe these things out because of discouraging industry", but it seems to us there should be a detailed study made to determine once and for all just how far our tax structure, as it has evolved over the years, does, if it does, actually discourage industrial expansion. There are all kinds of

individual areas you can mention: For example, in our province there has often been expressed by our oil industry -- and these representations have been made to the Federal authorities many times -- that the existing provisions for depletion allowance, and so on, are such as to discourage further expansion. These things are debatable, admittedly, but they are very real points in the minds of those engaged in industry. Those are the things we feel should be studied whether they are serious disabilities, to what extent they are serious, and if something should be done about it.

COMMISSIONER BROWN: You were discussing the aftermath of the public sector and you are now touching on the private sector. I wonder if you would care to give us your analysis of the adequacy or otherwise of the machinery that exists in the private sector for financing? This would include not only industry but also, for instance mortgages, to the extent that mortgages are available in large centres but not quite as available in smaller centres because those mortgage institutions don't exist, other than N.H.A? It is quite a large field, but I was wondering if you would care to give us your personal views on it?

HON.MR. MANNING: Mr. Chairman, as I have already indicated, in our view the existing facilities for financing industrial, commercial and private borrowings would be adequate if we could remove the competition of some of these areas of social capital I have spoken about. That is the first premise. The disabilities that you refer to, such as it being more difficult to obtain mortgage money in rural areas and smaller centres, are very true;

that is rather a matter of mechanism rather than any shortage or inability on the part of the traditional money market to meet the needs. To begin with, something more could be done to improve those facilities. This is extremely difficult because the numbers involved and the amounts involved are very small in relation to the costs that would probably accrue, but in our view generally the existing money market could take care of the legitimate requirements in those areas if it was relieved of the competition of governments which are getting a bigger portion all the time.

COMMISSIONER BROWN: I gather you feel they are not doing it adequately now?

HON. MR. MANNING: They are doing it at a price, I think, a lot of these people cannot afford to pay.

If I may add a thought, Mr. Chairman, which is digressing a little, which does bring it to mind and relates to several of these points we have discussed, it seems to us if we permit a situation to exist where it is more advantageous for a Canadian investor to invest in the debt of his nation than in the economic and industrial expansion of his nation, we are creating a very, very serious situation. As long as you have governments in the borrowing business on a large scale and at high interest returns, you actually have a situation where the earnings to the investor by investing in the debts of Canada is a better return than the return to a man who puts his money in a lot -- I should not say " a lot" -- but in many of our industries, and yet certainly from the country's good it is far more important to have

this industrial and economic expansion which produces goods and is the main factor in our G.N.P., rather than by debts increasing every day with higher costs going into our price structure. To put it in brief, that is the core of our concern. It troubles us to see a situation where investors say, "I can put my money in government bonds and get a return equal to what I can get by investing in industry," whereas had the money gone into industry it would have created more goods and employment opportunities and economic growth. When it goes into the other, it creates more debt service charges which push our prices that much higher. These are the kind of problems we are certainly hoping this Commission will tell the government how to solve.

COMMISSIONER HARROLD: On No. 6, I don't quite understand what you mean there: Would you like to expand that a little further? For instance, you say:

"... to ensure to the provinces financial resources adequate to discharge these responsibilities ..."

As far as your province is concerned, do you feel some concern it is not able to finance the necessary projects in this province, or what do you mean by that?

HON. MR. MANNING: I admit it was with some hesitancy that I included No. 6, because this is an attempt to consolidate in a few words the problem that Dominion-Provincial conferences have been grappling with, to my knowledge, for the last 20 years. In brief, the problem is that under the British North America Act the provinces are

assigned constitutional responsibilities for such major fields as education, health and welfare. These are the three big ones that involve a lot of expenditures. It is one thing to assign a statutory responsibility. It is another thing for the jurisdiction to be in the financial position where it is possible for them to adequately discharge those responsibilities. I quite appreciate when you say"adequately discharged", it becomes a matter of opinion as to what is "adequate". If you listen to the demands of those who are dependent on and interested in health, education and welfare, no area in Canada has remotely approached adequately discharging their responsibilities. I do not agree with that. I think on the whole we have come up to a pretty good level in most parts of Canada, but you do have today a wide discrepancy. We are one of the more fortunate areas. We are quite frank to admit that we are fortunate because we have our large amount of diversification of natural resources from which we acquire more than one-third of our provincial revenue without collecting it by taxation. However, certainly in Alberta we would not be able to provide what we would regard as an adequate level of educational opportunities, of health services, of essential welfare, without very, very onerous rates of taxation if it was not for the fact we have the good fortune of owning as a province 90 per cent of our oil and gas resources. We are well aware many other provinces are facing this problem. It seems to us we are always going to have dissension and concern unless all of our provinces by some means can be put in the position where the responsbility also has

constitutional responsibilities for such [illegible] fields as education, health and welfare. These are the three big ones that involve a lot of expenditures. It is one thing to assign a statutory responsibility. It is another thing for the jurisdiction to be in the financial position [illegible] to adequately discharge those [illegible] I quite appreciate when you say [illegible] discharged", it becomes a matter of opinion as to what is "adequate". If you listen to the demands of those who are dependent on and interested in health, education and welfare, no area in Canada has [illegible] approached adequately discharging their responsibilities. I do not agree with that. I think [illegible] to a pretty good [illegible] of Canada, but you do have today a wide divergence [illegible] and on the [illegible] dissents [illegible] to [illegible] that we are fortunate because we have our [illegible] resources from which we acquire more than one-third of our [illegible] without collecting it by taxation. However, certainly in Alberta we [illegible] provide that we would regard as an [illegible] level of educational opportunities, [illegible] welfare, without [illegible] if it was not [illegible] as a province [illegible] resources, [illegible] are well [illegible] always [illegible]

the means to discharge it attached.

The reference to doing it without impairing provincial autonomy is, I suggest, rather important to us. What has happened in the last number of years is that the Federal authorities have recognized many of the provinces are not in a position to do these things. One of the chief means by which the Federal Government has sought to aid in this problem is by the Federal authorities coming into the provincial field and undertaking to assume a share of the costs of things which are the responsibility of the province. We have welfare schemes, education schemes, hospital and medical schemes, all of which are provincial responsibilities, set up on a joint sharing basis. We have always felt that is fundamentally unsound in principle. It is a back-door way of putting the province in a position financially where it can do the thing that the constitution says it has the responsibility to do. One of the biggest weaknesses in it is that, first of all, these programmes are designed for Canada as a whole which largely takes away the flexibility of meeting the peculiar needs and circumstances of all the different areas of Canada. These needs do differ a great deal from one part of Canada to another. In the seond place -- and this is a thing that has created a lot of problems for the provinces -- when the government of Canada decides on a welfare programme or hospital programme that is conditional on the province paying such a percentage of it, these provinces have no choice, but, certainly, to some of them, even to provide the funds to pay the portion assigned to them is a serious problem. It has not been to us; we have

The preference to doing it without impairing provincial autonomy is, I suggest, rather important to us. What has happened in the last number of years is that the Federal authorities have recognized many of the provinces are not in a position to do these things. One of the chief means by which the Federal Government has sought to aid in this [illegible] schemes, all of which [illegible] is the [illegible] way [illegible] condition frequently where they can do the thing that the Constitution says it is the responsibility to do. One of the biggest weaknesses in it is that, first of all, these programmes are designed for Canada as a whole which largely takes away the flexibility of meeting the peculiar needs and circumstances of all the different parts of Canada. These needs differ a great deal from one part of Canada to another. In the second place -- and this is a thing that has created a lot of problems for the provinces -- when the government of Canada decides on a welfare programme or hospital programme that is [illegible] on the province paying such a

been fortunate and able to do these things, but a province in difficult financial circumstances, which is offered a proposition in some of these fields which are their own responsibility, but which comes from the Federal authorities saying, "If you will put up 50 per cent we will put up the other 50 per cent", they have a very real problem on their hands. They cannot say no, and yet to yes, they haven't even got the money to pay one-half, let alone the whole.

Those are the things we feel are injurious to unity and ought to be eliminated once and for all.

THE CHAIRMAN: And, moreover, the province is forced into that scheme, whereas in view of particular local circumstances they may have had some other plan or programme which, in their opinion, should have taken priority.

THE HON. MR. MANNING: That is very true.

THE CHAIRMAN: They are forced into something which may not be as vital as some other much more important programme?

THE HON.MR. MANNING: That, is very true. We have seen that happen over the years, and it is one of the reasons, as far as Alberta is concerned, why we have always been strong advocates in these areas for unconditional grants. We are not suggesting the Federal government should pay more money than they are paying now, but I think every province would be in a better position if the Government of Canada decides they are prepared to pay X dollars towards public health, and we feel it would be far better for that to be paid with no strings attached, other than the health field, to each province, and let them do the thing

which in their area is the most needful thing to be done, and not to be poured into a common mould which does not fit into many of the areas.

The other thing which has always concerned us, and I know from discussion with other provinces it has concerned them, when you have these things done jointly -- federally and provincially -- the provinces are always concerned what their position will be down the road if for some reason or other the Federal authorities decide they are no longer going to go on in that field. Once these programmes are started it is almost impossible to discontinue them. We have had in the last few years in Canada a number of concrete cases where joint projects have been started, and provinces have been asked to pay a part of the cost, and two or three years later the Federal authorities say, "We cannot go on". Those provinces are put in an extremely difficult financial situation. They either have to put up the money which they haven't got, or discontinue the service which they didn't initiate in the first place, but which they were more or less pressured into by a joint sharing scheme.

THE CHAIRMAN: And, I presume, with the resulting political odium that results from it.

THE HON. MR. MANNING: Well, it is not only the political aspect, but particularly in welfare services, once you have a large body of people who are to a considerable degree dependent on a service of this kind, it is almost impossible, from a humanitarian standpoint to say, "There is not going to be any more of this".

THE CHAIRMAN: Mr. Manning, we are very much obliged to you for your assistance to this

Commission today. I think the discussion has been not only stimulating but extremely valuable to us. We will give the very closest of consideration to the various points you have raised, which we have heard with very great interest indeed.

THE HON. MR.MANNING: Thank you very much,Mr. Chairman, and gentlemen.

THE CHAIRMAN: We will now adjourn until 2 P.M.

--- Luncheon adjournment.

SUBMISSION OF THE CREDIT UNION

LEAGUE OF ALBERTA

APPEARANCES

E. Ouellette	-	Managing Director
R. Hughson	-	Edcuation Director
H. Hewitt	-	President
G. Swales	-	Executive Treasurer
J. Klodie	-	Chairman of Legislative Committee

THE CHAIRMAN: The Credit Union League of Alberta. Mr. Hewitt, the president, I believe you will be presenting your submission.

MR. HEWITT: That is correct, sir.

THE CHAIRMAN: Well, we welcome you and look forward to your submission with great interest.

MR. HEWITT: Thank you, sir. We are happy to be here, I might mention, members of the Royal Commission,and we would like to present this brief to you because we feel that it is representative of the credit union movement in Alberta.

Perhaps first of all I should introduce myself as the President of the Credit Union League. I am from Calgary, Alberta where the headquarters of the League is. I have been connected with the movement since 1939, not only in my own credit

union but also in the League of which I am also a director.

I would like to introduce to you the other members of our delegation. On the far left Mr. J. Klodie, who is a member and a director of the League and also Chairman of our Legal and Legislative Committee. Mr. Swales of Calgary is also a director of the League and a member of the credit union in Calgary and financial treasurer.

On my right I would like to present Mr. Hughson, Education Director of the Credit Union League, and my far right Mr. Ed. Ouellette, Manager of the Credit Union League and also of Central Alberta Credit Union.

Mr. Ouellette will be our principal spokesman this afternoon and any questions may be directed to him and he will apportion the questions among ourselves. With your permission I would like to present the submission.

This, of course, is a brief summary of the brief which yougentlemen already have had and have with you, I have no doubt.

THE CHAIRMAN: I may say there are a number of ladies and gentlemen in the audience today and they may have difficulty hearing you because your back is to them. Actually whether there is any way of making yourself heard ---

MR. HEWITT: I can talk a little louder.

Purpose: The purpose of this brief is to present a complete picture of the Credit Union Movement in Alberta. This will cover the period between 1938 and 1960. This brief will not necessarily relate to the questionnaire because much of the informationis not yet available.

This will be included in the National brief.

Objectives: The principal objective of the Movement in Alberta is to establish a co-operative enterprise to provide low-cost credit to members. Other objectives are the provision of a savings institution, training in money management, savings and loan insurance and lessons in democracy.

Organization: Credit Unions are organized under the Credit Union Act, among persons having a common bond of association. They are operated by elected directors, credit and supervisory committees and managed by a paid secretary-treasurer. Credit Unions are further organized into a league having membership in national associations. These provide sources of advice, research, guidance, protection and promote further organization, and growth.

Promotion and Education: Following educational work among interested groups, Credit Unions are chartered by the Provincial Government. Each Credit Union receives assistance from the League. The officers are trained in their duties and responsibilities by the League through Chapters, Conferences and Literature.

Operation: The Directors have full management of the Credit Union subject to the approval of the members in Annual Meeting and according to the Credit Union Act. Actual conduct of business is carried on by the manager or secretary-treasurer who alone is paid for his services. The Credit Committee passes on loans for provident, productive or merchandising reasons. Security and repayment schedules on loans are arranged by this committee. The Supervisory Committee conducts quarterly audits to check on operations. An annual audit is also made by the Government Examination

[illegible] will be included in the [illegible] brief.

[illegible]

of the Movement in Alberta is to establish a co-operative enterprise to provide low-cost credit [illegible]. [illegible] objectives are the provision of a savings [illegible] in money management, savings [illegible].

[illegible] Credit Union Act, [illegible] persons [illegible] other [illegible] of association. They are operated [illegible]

[illegible] salary-five per cent, [illegible]

[illegible] organization, [illegible] sources of advice, [illegible] and promote further organization, and growth.

[illegible] and Education: [illegible] groups, Credit [illegible] Provincial Government. That Credit Union receives assistance from the

[illegible] responsibilities by the League through [illegible] conferences and literature.

[illegible] to the approval of the [illegible] to the Credit Union Act. [illegible] by the [illegible] [illegible] loans for provident,

[illegible] Schedules on loans are approved by [illegible]

Branch or Chartered Accountant.

Services and Accomplishments: Credit Unions perform four basic services. These are Savings, Loans, Insurance and Financial Counselling. Savings are made by members who purchase dividend earning shares. Loans are made, principally in the Personal and Small Loan Field at fair rates of interest. Insurance is provided to members on share savings and loans. Counselling is given in Family Finance by Credit Union Officers and through literature on the subject. Through elections of officers and participation at Annual Meetings, members l democracy and money managements.

History of Credit Unions in Alberta: The first Credit Unions were chartered in Alberta in 1938. Growth has been steady until, at the end of 1960, there were 253 Credit Unions having 77,938 members owning $29,215,581.83. in assets. The Credit Union League was formed in 1942 and chartered in 1944. than 250 Credit Unions are members of the League. The Alberta Central Credit Union, Ltd. was formed in 1947 as a deposit and loan institution for Credit Unions and Co-operatives in Alberta. Some 270 Credit Unions held membership at the end of 1961.

History of Liquidations and Mergers: between the years 1938 and 1960, some 367 Credi chartered. Of these, 84 have been dissolved for various reasons, 12 are shown as inactive, 5 amalgamations have taken place and 7 are not reporting regularly and are also considered inactive. In most cases, no losses to shareholders has occurred. Four charters were issued in error.

Reserves Guaranty Fund Investments bonding stabilization liquidity: The Credit Union

Act requires that each Credit Union must maintain liquid reserves equal to 5 per cent of paid-up capital (shares) and 10 per cent of deposits except that where orders are allowed to be drawn on deposits, 25 per cent is required on the latter. In practice, most Credit Unions hold greater reserves thanthis. Investment figures are 22.6 per cent of shares and deposits and 19.9 per cent of assets. Each Credit Union must set aside 20 per cent of Net earnings before dividends plus all fees and fines into a Guaranty Fund against bad loans. Write-offs to the Guaranty Fund amounted to .109 per cent of total loans to the end of 1960. Present Guaranty Funds equal 3.5 per cent of total shares and deposits and 4.08 per cent of loans. Cash reserves stand at 7.1 per cent of shares and deposits, 6.3 per cent of assets while cash and investments are 19.9 per cent of assets. In addition to these reserves, League member Credit Unions participate in a Stabilization Fund that will, by 1963, total $200,000.00. The stated objective of this Fund is to under-write Credit Union members share holdings. All Credit Union officers and employees are bonded in a minimum amount equal to from 10 per cent to 15 per cent of total assets as required by the Credit Union Act. Most Credit Unions carry bonds for much larger amounts. The Act provides for retention of earnings when loan delinquency is above 40 per cent. Funds invested inAlberta Central Credit Union Ltd. constitute an additional reserve. All investments must be in liquid form as against shares, deposits and loans.

Loan Practices: Loans are generally restricted to the Personal Loan Field. However,

Act requires that each Credit Union must maintain liquid reserves equal to 5 per cent of paid-up capital (shares) and 10 per cent of deposits except that where orders are allowed to be drawn on deposits, 25 per cent is required on the latter. In practice, most Credit Unions hold greater reserves than this. Investment figures are 22.6 per cent of shares and deposits and 19.9 per cent of assets. Each Credit Union must set aside 20 per cent of net earnings before dividends plus all fees and fines into a Guaranty Fund against bad loans. Write-offs to the Guaranty Fund amounted to .15? per cent of total loans to the end of 1961. Present Guaranty Funds equal 3.5 per cent of total shares and deposits and 4.90 per cent of loans. Cash reserves are at 7.1 per cent of shares and deposits, 6.5 per cent of assets while cash and investments are 26.9 per cent of assets. In addition to these reserves, League member Credit Unions participate in a Stabilization Fund that will, by 1963, total $200,000.00. The stated objective of this fund is to underwrite Credit Union members' share holdings. All Credit Union officers and employees are bonded in a minimum amount equal to from 10 per cent to 15 per cent of total assets as required by the Credit Union Act. Most Credit Unions carry bonds for much larger amounts. The Act provides for retention of earnings when loan delinquency is above 40 per cent. Funds invested in Alberta Central Credit Union Ltd. constitute an additional reserve. All investments must be in liquid form as against shares, deposits and loans.

Loans are generally

as Credit Unions get larger, more of the Mortgage types are being granted. Terms are from 12 to 18 months, and occasionally up to 36 months. Security is most often by way of Chattel Mortgage and Co-signors. Trends indicate larger loans for longer periods can be expected. Every effort is made to make "cash buyers" of members. The basic interest rate is 1 per cent per month on the unpaid balance. Members know what they pay in interest charges.

Conclusions: Growth is bringing problems in investment fields, money management, administration and human relations. Active study of these is carried on by officers, managers, and members under the auspices of the League and Credit Union National Association. Confidence is expressed that the people are capable of managing their financial affairs. We believe that Credit Unions should be governed by Provincial Legislation, taking into account the varying conditions throughout the country, so as to better serve the members. The Credit Union Movement is of the people and must be geared to their needs. Any control that tends to overlook this, is not to be contemplated.

That is our submission, gentlemen.

THE CHAIRMAN: Thank you, Mr. Hewitt. Shall we now call on Mr. Ouellette. Perhaps the questions may begin after you have finished.

MR. OUELLETTE: Well, Mr. Chairman, and members of the Commission, first of all I have two observations I would like to offer. And then, as Mr. Hewitt has indicated, I would like the indulgence of you gentlemen in directing your questions first of all to me so that I may, knowing the members

of our representation,can direct them to the appropriate person.

My first observation is that as the members of this Commission will realize we are in fact preparing a national submission to your Commission. We are participants in the preparation of this national brief through our national organization. Therefore, there may be certain items that may come up for review today that we will in fact necessarily defer to the national brief since we do not feel we are necessarily competent and sophisticated enough to answer questions on it. However, we do wish to be as factual and frank and straight-forward as we can in those areas we feel we are competent to speak on.

The second observation I would like to draw to your attention is that there is no separate application from our Central organization here in Alberta. This is in fact included in the submission by the Credit Union League so if you ask questions concerning the operation of our Central organization to do with its operations or functioning I wish you would direct those questions in concerning yourself with this brief.

This is about all I have to say, Mr. Chairman.

THE CHAIRMAN: I may say that we have had hearings in Vancouver in which the British Columbia Credit Union organizations presented quite elaborate briefs and we are more or less familiar generally speaking with the principles involved in credit unions so that perhaps it might save some time since we are already appraised of the general aspects of it and now our questions will relate

to any special items that appear in your brief that we would like further information on.

COMMISSIONER HARROLD: Well, Mr. Chairman, I might lead off with a very general question. I notice by the brief as a whole that the rate of growth of credit unions at the present time is comparatively high. Would you have any observations to make as to the reasons for the recent rate of growth? What factors seem to affect the rate of growth of credit unions here in Alberta?

MR. OUELLETTE: I am not sure, Mr. Chairman, that Mr. Harrold's question is directed by way of extracting the value of the present situation as against the past situation. Is this right?

COMMISSIONER HARROLD: Yes.

MR. OUELLETTE: Under those circumstances, Mr. Chairman, I would call upon the member of this representation, this group today that has quite a considerable background in Alberta. I do not consider myself competent to answer your questions and I would call on Mr. Swales.

MR. SWALES: Gentlemen, I believe that there are probably a number of factors that have influenced the rate of growth and we feel that it has been substantial in this province. We might like to give reasons. I feel that being factual, honest, possibly one of the prime factors in our growth has been our willingness to encourage people to come in for the service of loans. I say I do honestly admit that one of the factors in our growth has been our willingness to encourage people to come in and discuss their personal lending problems with us.

While I feel that that is an honest admission and that that has attracted a great many people, we like to feel that when they do come in to join the credit union that they do this and assist us to grow through the fundamental basis of people working together for a good purpose, in encouraging their saving and encouraging them to work with their neighbours and friends with a common bond to do something for others.

Other factors may be the insurance benefits on savings and loans, easy accessibility by all people and I think perhaps that those are the main factors in the growth of this movement.

COMMISSIONER HARROLD: You were not in existence several years ago.

MR. SWALES: Well, of course, credit unions were first introducedin Alberta in 1938.

COMMISSIONER HARROLD: But I believe comparatively speaking the last few years there has been a much faster rate of growth than there was in the former years.

MR. SWALES: That is right in common with other people also has been the growth in the past few years, the expansion of consumer credit. In other words, many institutions today are interested in providing a service for the people by going into the personal loan field through instalment selling and so forth and I think possibly this has also influenced the rapid growth of credit unions with the question of credit becoming a problem and more recognized as a material factor in our economy than it was years ago.

COMMISSIONER MACKINTOSH: Mr. Ouellette, you spoke in the brief of the democratic organization

and processes of the credit unions. How far do the membership actually participate actively in the annual meetings? Does this differ between smaller and larger unions?

MR. OUELLETTE: I think I can fairly claim, sir, that we have a quite substantial meeting of membership participating in the general and annual meetings of the credit unions of this province. Certainly there is a variation. The quorum that is necessary for the annual meeting is set by the legislation of this province.

COMMISSIONER MACKINTOSH: What is a quorum?

MR. OUELLETEE: 10 per cent of the membership or 50 persons, whichever is the lesser. It also is required that these annual meetings be held within the first two months, January or February. I think that is the requirement. I think the requirements are pretty well met at all general meetings and I think this is a commendable observation to make on behalf of the membership in that they are particularly careful in their own organizations to see that this quorum of 10 per cent is met regularly and we have had numerous occasions where much larger representations are frequent. I personally, as a member of the executive, have occasion to attend some of these meetings and not infrequently I have seen examples of attendances as high as 90 per cent.

I would like to go to the other point that arose, if I may, and explain to you that this is perhaps possibly the corner-stone of the organization itself. And that is that the operations of the credit unions are carried on by the elected officers of the organization and subsequent to that the management group.

and processes of the credit unions. How far do the membership actually participate actively in the annual [illegible]? Does this differ between smaller and larger unions?

MR. [illegible]: I think I can fairly claim, sir, that we have a quite substantial meeting of members participating in the general and annual meetings of the credit unions of this province. Certainly there is a variation. The quorum that is necessary for the annual meeting is set by the legislation of this province.

COMMISSIONER [illegible]: What is a quorum?

MR. [illegible]: 10 per cent of the membership or 10 persons, whichever is the lesser. It also is required that these annual meetings be held within the first two months, January or February. I [illegible] [illegible], I think the [illegible] are pretty well [illegible] all general meetings [illegible] [illegible] [illegible] [illegible] on behalf of the membership in that they are particularly careful in their own organizations to see that this quorum of 10 per cent is met regularly and we have [illegible] occasions there may be larger representations are frequent. I personally, as a member of the executive, have occasion to attend [illegible] these meetings and not infrequently I have [illegible] [illegible] attendances as high as 90 per cent.

I would like to go to the other point that arose, if I may, and explain to you that there is perhaps [illegible] the cornerstone of the organization itself. And that is that the operations of the [illegible] [illegible] on by the elected officers [illegible] [illegible] to that [illegible]

Nevertheless, I do think we have preserved throughout the years of the history of the credit union novement in Alberta quite a strong tradition of membership participation and democratic action. I think this is a fair statement.

COMMISSIONER MACKINTOSH: Do you think that would hold in the large as well as the smaller group?

MR. OUELLETTE: Personally, I think it does.Our experience has been that, in fact, the larger group sometimes enjoys as much participation, by and large, as some of the smaller ones. I think possibly this is the result of success. The smaller sometimes find it difficult to be attractive. I am not saying this is general throughout, because somebody has to have zeal and enthusiasm to find it is an attractive organization, but as the organization becomes larger and successful, naturally enough, it is easier for the group to attract participation at the membership level.

COMMISSIONER LEMAN: Mr. Ouellette, I think we might turn now to the question of supervision, auditng, and that sort of thing.

MR. OUELLETTE: Yes.

COMMISSIONER LEMAN: I note from Appendix B that the League started an audit service in the middle of 1960 -- offered it to the indivdual unions: Could you briefly describe for us to what extent the League exercises any authority over the individual unions; or, not at all?

MR. OUELLETTE: Over the individual unions?

COMMISSIONER LEMAN: Yes, or not at all?

MR. OUELLETTE: My answer to that would have to be that as far as direct authority or the

Nevertheless, I do think we have preserved throughout the years of the history of the credit union movement in Alberta quite a strong tradition of membership participation and democratic control. I think this is a fair statement.

COMMISSIONER MACKINTOSH: Do you think that would hold in the larger as well as the smaller groups?

MR. OUELLETTE: Personally, I think it does. Our experience has been that, in fact, the larger group sometimes enjoys as much participation, by and large, as some of the smaller ones. I think possibly this is the result of success. The small ones sometimes find it difficult to be attractive. I am not saying this is general throughout, because somebody has to have zeal and enthusiasm to find it is an attractive organization, but as the organization becomes larger and successful, naturally enough, it is easier for the group to attract participation at the membership level.

COMMISSIONER LEMAN: Mr. Ouellette, I think we might turn now to the question of supervision, auditing, and that sort of thing.

COMMISSIONER LEMAN: I note from Appendix 3 that the League started an audit service in the middle of 1960 -- offered it to the individual unions. Could you briefly describe for us to what extent the League exercises any authority over the individual unions; or, not at all?

MR. OUELLETTE: Over the individual unions?

ability to coerce action from the directors of credit unions is concerned, this does not exist as far as the League is concerned. I think the term has probably been thrown around rather handily in the last few years, as far as you gentlemen are concerned, and that is the moral suasion term. I think there is a considerable amount of pressure brought to bear upon the officers of credit unions in the knowledge their actions, their decisions, their growth, their success is going to be measured against that of others like themselves in the province. This is where the real influence of the League manifests itself, and I think it is there, yes.

I am not sure I have answered your question, because you began by asking about the audit service. I want to point out very deliberately here that this is not to be considered in any way as being a full-fledged activity of the League. For example, the people employed in this particular capacity -- let me start again: These people are not, in fact, employed by the League or anyone else. They are independent professionally. They are, in fact, chartered accountants, and they are quite independent of the League as far as their ordinary practices are concerned; but they are, in fact, very familiar with the nature of operations of credit unions and their needs in advice and in counselling and coaching, and you might say they are specialists in the accounting of the credit union movement, and are devoting the majority of their time and talent in this way. As far as fees for services are concerned, these are directly paid by the organization to this firm. Is this the question?

COMMISSIONER LEMAN: Yes, but I would like to ask a subsidiary question: What is the reaction of the League staff to a credit union that refuses to send a copy of its auditor's report?

MR. OUELLETTE: To the League?

COMMISSIONER LEMAN: Yes. Would your reaction be that that is a strange attitude?

MR. OUELLETTE: Yes, I think we would regard it as a strange attitude; and, regarding it as a strange attitude, I think probably the action of the League staff would be to take all pains in ascertaining why that attitude existed, and if it was felt necessary thereafter to draw it to the attention of the authorities.

COMMISSIONER LEMAN: If any specific credit union requests any help from the Central body in the form of a loan, you would probably insist on full reports, wouldn't you?

MR. OUELLETTE: Quite definitely; yes, we do, and I think reasonably so. I am sure you would agree with that. We do, in fact -- understand that we get the co-operation at the Central level in that regard.

COMMISSIONER LEMAN: There is also a provincial supervisory system?

MR. OUELLETTE: That is right.

COMMISSIONER LEMAN: Could you comment to us on that? Is it adequately staffed? Is it able to do a fairly thorough job of supervising?

MR. OUELLETTE: Immediately, Mr. Chairman, let me remark that so far as the credit union movement is concerned in this province we are very, very pleased with the co-operation and the

generosity accorded to us by the government of this province in this particular matter. You have asked whether or not they are adequately staffed, and this, of course, becomes a matter of interpreting what is "adequate". I think if you want to use comparisons, and we do inevitably make them from province to province, of course, I think we probably enjoy as high a percentage of staff to the job as any other province in Canada. Generally speaking, I would say staff-wise we do have adequate staff. I would also like to add that we are constantly working with the supervisory authority in this province to discover and bring out ways of improving the inspection system with them,and I think only the very naive would say we have developed in this province the ultimate in the inspection system. We are working at it, and we think it is of high calibre now, but we think it can be improved.

THE CHAIRMAN: You have a supervisory committee in each union?

MR. OUELLETTE: Yes, sir.

THE CHAIRMAN: That is, as I understand it, just glancing at the Act: That is elected at the provisional meeting -- the first meeting of the union, and I suppose subject to re-election from time to time?

MR. OUELLETTE: Every year, yes sir.

THE CHAIRMAN: And one of their duties is to make an annual audit or cause an annual audit to be made by a chartered accountant or other qualified person and submit a report to the annual meeting. Have you anything to say as to whether those provisions are complied with regularly or, if they are not complied with, what action has been

taken on any particular instance? I just want to get a general view of what goes on in that respect.

MR. OUELLETTE: Mr. Chairman, first of all -- and you realize it very well, of course, -- but for the purpose of the rest of the people in this room here, that you have in fact quoted a requirement of the law of this province for the operation of credit unions, and it is in fact the supervisory authority's responsibility to see that law is complied with. So, any remarks we might make along these lines would be a generalization, and you have indicated this is what you are seeking from us. I would say to a very great extent that this provision is, in fact, being complied with because rightly, I believe, this government has within the framework of its legislation, standard bylaws that supplement the Act you have there, certain requirements that will, in fact, be effective in making these provisions adhered to.

I think generally, yes, to answer your question simply, that this is being done.

COMMISSIONER BROWN: Going back to the provincial inspection staff, you answered generally about adequacy; I wonder if you could tell us just how many inspectors are employed and, further on that, do they make surprise audits of credit unions -- surprise visits?

MR. OUELLETTE: Again, Mr. Chairman, I believe at the present time the number of persons directly engaged in auditing at the present time is eight in this province. In addition to that we have other supervisory persons that are indirectly engaged in the audit activity as well.

Those directly engaged, I think, number eight. Now, you asked a second part of the question ...?

COMMISSIONER BROWN: I was wondering about surprise audits?

MR. OUELLETTE: Yes, this is in fact done by them and also by the supervisory committees that your Chairman has mentioned to us a few moments ago. He made reference to an internal audit committee that acts additionally to the government audits. They also make surprise cash counts and inspections that the provincial financial officer of the treasury is not aware of.

COMMISSIONER BROWN: And is this entirely at the expense of the government, or is it contributory?

MR. OUELLETTE: No, it is not contributory; it is at the expense of the government.

COMMISSIONER BROWN: Do all the credit unions belong to the League?

MR. OUELLETTE: No. I think at the present time, on the statistics we have in this particular summary -- and you realize this thing changes ---

COMMISSIONER BROWN: It is a little conflicting because some figures were at the end of 1961 and others in 1960.

MR. OUELLETTE: That is correct. In fact, at the present time, since the brief was written the figures have changed again, naturally. So, as we say, this is a relative thing.

MR. HEWITT: There are 250 members of the League out of 281 in the province.

MR.HUGHSON: That has gone up again, Mr. Chairman, to 253 as members of the League, and some 36 non-members.

COMMISSIONER LEMAN: Could you describe for us in your own mind, or in their minds, what are the advantages and disadvantages of belonging to the League? Why wouldn't they all belong to the League?

MR. OUELLETTE: May I ask the gentleman on my left, Mr. Hughson, who is responsible for the educational programming of the League to answer that question.

MR. HUGHSON: I don't know whether I actually know all the reasons why credit unions do not belong to the League. I suspect there is some ancient history involved in this question. I know in the past three or four years since the credit union League became more active in the field and more and more credit unions have seen fit to affiliate or reaffiliate with them, and with very few exceptions all new credit unions are affiliating. Why: There is quite a variety of reasons why. Some are from the financial standpoint in that the League dues are a factor: 90 cents per person over the age of 16 a year amounts to quite a figure with some of the larger credit unions. Others do not belong to the League because they feel it is not necessary; that they are doing very well as is. They are enjoying most of the advantages of belonging to the League without having to pay the shot, so to speak. Through the League, which is the only organized voice in Alberta, they are getting the protection of the law in which we, as the organized body, make all the advances to the government supervisory body, and they, in turn, come to us whenever regulations have to be changed or amended. So, there is a group enjoying this without having --

COMMISSIONER [illegible]: Could you describe for us in your own mind, or in their minds, what are the advantages and disadvantages of belonging to the League? Why wouldn't they all belong to the League?

MR. [illegible]: May I ask the gentleman on my left, Mr. Hodgson, who is responsible for the educational programming of the League, to

MR. HODGSON: I don't know whether I actually know all the reasons why credit unions do not belong to the League. I suspect there is some [illegible] involved in this question. I know in the past [illegible] credit union League became more active in the field and more and more credit unions have seen fit to affiliate or re-affiliate with them, and with very few exceptions all new credit unions are affiliating. Why? There is quite a variety of reasons why. Some are from the financial standpoint in that the League dues are [illegible] cents per [illegible] the [illegible] of 1% a year amounts to quite a figure with some of the larger credit unions. Others do not belong to the League because they feel it is not necessary; that they are doing very well as is. They are enjoying most of the advantages of belonging to the League without having to pay the [illegible], so to speak. Through the League, which is the only organized voice in Alberta, they are getting the protection of the law in which we, as the organized body, make all the advances to the government and they, in turn, come to us [illegible] to be changed or [illegible]

it is true they do not have a voice in it but up to now it looks as though they are quite satisfied with what we are doing.

Some years ago the matter of insurance was a factor. I feel that we sold the League on the underwriting rule that we had with our own credit union insurance companies. Other credit union insurance companies, or companies that carried credit union insurance started up in that field, and the underwriting rule, I might explain, was one in which our own credit union insurance company would not write insurance unless the credit union was a member of the League. When other credit unions insurance came into the field, several of the credit unions broke away from the League or, in the case of new ones, never joined the League at all because they could get insurance with other companies. This was a factor. In the last few years the matter of insurance has become less and less important from the standpoint of League membership, and this has been evident in the fact that now a great number of credit unions have League membership although they take insurance with companies other than those sponsored by the credit union movement.

Then, there were personal things which came in: Sometimes differences between the people in power in the supervisory body -- that is, the government body -- and those in office in the League. These kind of things creep in -- the

personal angle -- and I think that was a factor in some cases.

I think those are probably the main things.

COMMISSIONER LEMAN: Would you say that generally those that do not belong are large ones or small ones?

MR. SWALES: No, as a matter of fact there are few large ones. I think there are one or two that have more than $½ million in assets but generally speaking the assets of those who do not belong are smaller. I have been working on some graphs for presentation at the Convention coming up on the 1st of April on growth between non-League and League credit unions. Last year there was an increase in the number of credit unions from the end of 1960 to the end of 1961 of from 250 to 284. None of those formed last year are considered as non-League; in other words, they all are members of the League. There were 36 non-League credit unions at the end of 1960 and 36 non-League at the end of 1961.

In membership increase the members of non-League credit unions increased their total membership by 574 persons whereas League member credit unions increased their membership by 7,882. On the assets, the increase in League membership credit unions amounts to $4,846,000 approximately, whereas the increase in assets in non-League credit unions was $1,120,000 approximately. Over-all, the increase

was nearly $6 million combined. So it is interesting to note that on percentage of increase League credit unions showed an increase of 17.8 per cent in assets whereas non-League credit unions showed an increase of 51 per cent which is a big total but in total number of dollars it was not nearly as great. I cannot explain why the big jump percentage-wise occurred. I have not gone that far with my investigation. I am now in the process of making comparisons between individual credit unions non-League as from 1960 to 1961 to see whether it was the larger credit union that had the greatest percentage of increase or the smaller credit unions but I have not yet completed my investigation.

COMMISSIONER LEMAN: Do these figures allow for the transfer of membership in credit unions from one class to another?

MR. SWALES: Yes. There was no transfer during 1961, that is, from League to non-League. There were some from non-League to League during that time. I think that this about covers it unless you have something further.

COMMISSIONER BROWN: Can they participate in Central if they are non-League members?

MR. SWALES: Yes, there is no qualification with regard to membership in the League, that is, the membership in Central. In fact we have a number of the 36 non-League who are members in Central.

MR. OUELLETTE: Mr. Chairman, if I might, I would like to expand on that point and that is to

say as you people realize Central is a completely independent body and has its own system of government, it has its own group, its own officers, it is completely a business enterprise.

In spite of the fact that we are making a dual presentation on behalf of Central I want it to be understood that this is an independent unit to the League itself.

MR. HUGHSON: Alberta Central does hold membership in the League but in no case do the League influence their actions, decisions or plans of operation.

COMMISSIONER LEMAN: But Central must belong to the League on a different basis?

MR. HUGHSON: They belong on a voluntary basis for the purpose mainly of participating in the stabilization fund.

COMMISSIONER LEMAN: How are their units shared?

MR. HUGHSON: From our account. They are paying the same basis per their credit union as through any credit unions. As far as the money is concerned it is of very little consequence but technically and legally the participation is there. They pay 90 cents per member credit union similarly with us, the ordinary credit union pays 90 cents for a member over the age of 16 but it is merely a technical thing.

COMMISSIONER LEMAN: May I jump to a different subject now? I read one of the little

pamphlets marked Appendix IV A about your Board of Directors and the first paragraph of it says: "A credit union is a legal corporation, but it is unlike the big business corporations you read about. It is governed by a Board of Directors elected by the members. These Directors are responsible for the operation and policies of the credit union." It could not have been meant, could it, that that was the way in which credit union was different from a big corporation, could it?

MR. OUELLETTE: Mr. Chairman, if I may you are referring to paragraph 1, are you?

COMMISSIONER LEMAN: Yes sir.I would rather think that was a point of similarity rather than a point of difference.

MR. OUELLETTE: And in fact in language this implied difference, is that what you are saying?

COMMISSIONER LEMAN: Yes.

MR. OUELLETTE: Well, frankly Mr. Chairman, I cannot disagree with the gentleman in his observation. From having read it again I think this pamphlet is probably weak in that regard.

COMMISSIONER MACKINTOSH: I suggest it would be stronger if it said that each member had a vote.

MR. SWALES: Yes, I think probably that did not go far enough with this because that implied, I think, that there is a difference here. Because you vote as one person and not as a shareholder and this I do not think was explained.

COMMISSIONER MACKINTOSH: May I ask some questions? I have been looking at the other credit unions. There is a variation in their records relating to the amount of savings they acquire on the one hand through subscription of shares and on the other hand through deposits. Are deposits increasing in Alberta as rapidly as shareholdings?

MR. OUELLETTE: No, they are not, Mr. Chairman. In fact, in Alberta the system of deposits is rather limited. Shares, of course, are the mainstay of the operations of the credit unions in Alberta and deposits withdrawable by voucher or otherwise is not a very widespread practice in this province. In fact, we find as few as 12 credit unions in Alberta who do conduct a withdrawal voucher system of operations.

COMMISSIONER MACKINTOSH: There are so few I take it there are not any special arrangements with the bank for clearing?

MR. OUELLETTE: Yes, there are. We in fact operate under a special schedule of the Canadian Bankers' Association as do every other credit union in the Dominion of Canada. There are two schedules which may apply in each province of Canada. In this particular province Schedule A is the one under which we operate which makes every organized credit union make its own arrangements with the banks, not through any centralized agency.

COMMISSIONER MACKINTOSH: We are charged to examine the operations of monetary policy. Can

you tell me whether the shifts in monetary policy and changes in the degree of consumer credit and rate of interest have affected the operations of your credit unions and the degree to which it can carry comfortably?

MR. OUELLETTE: Well, Mr. Chairman, first of all let me disagree that I think in so far as degree is concerned this is one of the areas in which I believe we would ask you to bear with us until the presentation of the national statistics of this nature because I think we are nationally drawing up a new table and getting adequate statistics to support any position we might take.

However, we are agreed among ourselves here from the representations you have before you today that we do want to make some observations that must be considered in the nature of opinion and if you are ready to accept that I think we are ready to make some observations and I think with your indulgence again I will go down the line, after I have had a few remarks myself. In think in function generally the credit union movement is responsive to the rise and fall of the economic conditions of this country.

Now, I do think also that they are not immediately responsive. I think there is in fact a time factor here. I do think in the long run -- -

COMMISSIONER MACKINTOSH: You mean there is a lag.

MR. OUELLETTE: There is a lag, yes, and I think it is reasonable because of the fact that the credit union movement involves a great number of people and when you have people involved of course the responses are slower but I think generally enough we are responsive. I might go down the line and ask our Chairman, Mr. Hewitt, to say something on that.

MR. HEWITT: There is not too much to be said regarding it as far as I am concerned. Like my friend Mr. Ouellette, I certainly agree that we are more or less responsive to this particular thing but we do feel, however, that somehow or other it has not had too much effect so far as Alberta is concerned. There is a certain amount of responsiveness on our part to that kind of thing but actually we remain fairly up-to-date in Alberta.

COMMISSIONER MACKINTOSH: Do you get any reverse response which you run into in other institutions, more clients coming to you?

MR. SWALES: Well, sir, I would like to answer this question because I manage a staff and over the years we paid a small dividend and in a few years we built up to where we were paying our members 5½ per cent on our savings. Despite the increased return on savings in the last few years our officers and men have not been complaining and no increase beyond, shall we say, the 3½ per cent. We have been considering an increase. It will be

a while, a matter of maybe another year or two and we might come up to 3-3/4 per cent or 4 per cent but we have been paying 3½ per cent for some time now. We have also been charging 1 per cent per month interest on our loans but we have been refunding a patronage dividend at the end of the year of about 15 per cent. This is an earlier concept in the past few years. We have been feeling in our credit union that we are only concerned in looking after our own, encouraging our savings from our members, using them for a good purpose, giving them a reasonable return and we are slow in coming around to making changes in that respect.

MR. OUELLETTE: Mr. Chairman, if I might elaborate I think Dr. Mackintosh in fact asked whether or not there was any acceleration in the demand for loans at certain times?

COMMISSIONER MACKINTOSH: Yes

MR. OUELLETTE: I do not think you have had an answer as yet.

COMMISSIONER MACKINTOSH: On the savings side but not on the loan side.

MR. OUELLETTE: On the loan side I think it would be fair to observe that I see no tendency towards an increased demand at the credit union level during times of restraint as far as credit is concerned in the economy.

I would like to add to that, I would like to emphasize that our credit unions do not in fact in open arms fashion accept this demand in a

le, a matter of maybe another year or two and we might come up to 3-3/4 per cent or 4 per cent but we have been paying 3½ per cent for some time now. We have also been charging 1 per cent per month interest on our loans but we have been refunding a patronage dividend at the end of the year of about 15 per cent. This is an earlier concept in the past few years. We have been feeling in our credit union that we are only concerned in looking after our own, encouraging our savings from our members, using them for a good purpose, giving them a reasonable return and we are slow in coming around to making changes in that respect.

MR. OUELLETTE: Mr. Chairman, if I might elaborate I think Mr. Mackintosh in fact asked whether or not there was any acceleration in the demand for loans in certain times?

COMMISSIONER MACKINTOSH: Yes

MR. OUELLETTE: I do not think you have had an answer as yet.

COMMISSIONER MACKIN On the saving-side but not on the loan side.

MR. OUELLETTE: On the loan side I think it would be fair to observe that I see no tendency towards an increased demand at the credit union level during times of restraint as far as credit is concerned in the economy.

to add to that, I would like to emphasize that credit unions do not in fact

holus bolus fashion. In fact I think that the credit union movement generally is rather conservative in its manner of practice and this conservatism probably shows itself most at these times of demand.

COMMISSIONER LEMAN: But you face substantial agreement with it.

MR. HUGHSON: There is here an internal control from the standpoint of availability of funds. Credit unions are pretty well limited to the amount of money that they can loan based upon the share savings of the members. It is true that they do have the power in Alberta to borrow up to 50 per cent of their paid up capital in the event that they need it but it has not been our experience that our Alberta Central has had demands made upon it beyond its capacity to satisfy them and from this we take it that credit unions are loath to borrow from outside sources but tend to depend upon their own resources.

COMMISSIONER MACKINTOSH: Does Central operate to any degree with bankers' credit?

MR. OUELLETTE: Yes, it does, sir. We have incidentally an arrangement with the bank. We have our seasonal cycles as far as demand is concerned which, of course, I am sure you gentlemen all realize and when this occurs we do in fact draw on the bank and their facilities to meet this demand. I think this is possibly the place to observe that interestingly enough this is another

the capital market movement primarily is rather [illegible] concerned with the [illegible] of practice and thin [illegible]

[illegible] cause of demand.

COMMISSIONER [illegible]MAN: But you have substantial [illegible] with [illegible].

MR. [illegible]: There is then a [illegible] capital control [illegible] the [illegible] of availability of funds. [illegible] will [illegible] the amount of money that they can [illegible] the share savings of the [illegible] the [illegible] they do [illegible] the power [illegible] of [illegible] of their [illegible] they [illegible] upon our experience that [illegible] Central has [illegible] to beyond its capacity to [illegible] than [illegible] this we [illegible] that [illegible]

[illegible]

COMMISSIONER [illegible]: [illegible] opposite to any [illegible]

MR. [illegible]: [illegible] is [illegible] the bank. [illegible] cycle: [illegible] it [illegible] I am sure you [illegible] all [illegible] and [illegible] we do in fact

area for responsiveness of the credit unions. In fact, it has been within my experience.

COMMISSIONER MACKINTOSH: You have been restricted?

MR. OUELLETTE: That is right.

COMMISSIONER GIBSON: The credit unions themselves have on occasion found it possible to tighten up their lending facilities because money is tighter?

MR. OUELLETTE: Yes.

COMMISSIONER GIBSON: Does this mean that it would be harder to get money from Central?

MR. OUELLETTE: It shows itself all the way up and above the line because when the demand increases it is more noticeable at the Central level. Central can only go so far in meeting any acceleration of demand and it is then completely necessary to draw from the banking facilities and they are very restricted in credit.

COMMISSIONER GIBSON: I do not know whether in fact the Alberta Central ever really was squeezed, was it? Can you enlighten us on that? There were two periods when money was fairly tight, 1957 and 1959.

MR. OUELLETTE: I would say -- and as I say this is in the area of opinon naturally because I have asked in the beginning of this discussion for referal to the national brief for the specific factors behind this but I do not think Alberta Central was exposed to any undue pressure.

Certainly the pressure was there, we knew it was there, but it was not extreme.

COMMISSIONER GIBSON: You were able to pay out the amount you had to but you knew you could not get any more.

MR. OUELLETTE: That is right.

COMMISSIONER BROWN: Have you ever used other sources of funds, considered any long-term borrowing at all?

MR. OUELLETTE: No, we have not. You are specifically asking me now about the Alberta Central?

COMMISSIONER BROWN: Yes.

MR. OUELLETTE: The Alberta Central has only used two methods of obtaining funds for its own operation and that was within the membership and the banking institutions. These are the only two sources. Certainly in the foreseeable future there is certainly no necessity at the present time for opening other sources.

COMMISSIONER BROWN: You have not considered investigating other sources?

MR. OUELLETTE: No, frankly we have not.

MR. SWALES: I have the feeling that in my experience with the credit union movement when we experienced tight money periods it is generally reflected in the banking people and our central have met all demands and our credit unions have reasonably met the demands of the small loans even if their money was all loaned out but we have not found this an embarrassment at any stage

and I think we have even possibly without realizing it gone along with the actual policies.

COMMISSIONER BROWN: Have you felt any pressure on growth, smaller acceleration of that growth?

MR. SWALES: No, not particularly.

COMMISSIONER GIBSON: How does it work? They wait, I suppose, until credit is plentiful. Does this stimulate your lending operations?

MR. SWALES: Oh, people perhaps over-all have more loans and they are a little more confident. On a bouyant demand they feel like buying more cars, more furniture etc., so they borrow more.

COMMISSIONER GIBSON: You do not change your general rate, though, it is still 1 per cent per month?

MR. SWALES: Most of our credit unions maintain a stable rate for years and have not been changing that at all.

COMMISSIONER GIBSON: What about the patronage dividend?

MR. SWALES: That will fluctuate but even that has been stable.

MR. OUELLETTE: The patronage dividend, of course, depends upon the volume of business and earnings related to the expenditure. Before raising it the shareholders are considered first and when thecredit union is built up to what we feel is an average at anywhere between 3 and 4½ per cent where we are in a shares picture created by more

volume or other factors which would allow us to pay more dividends, we take the position that it is better to keep an average dividend of 3 to 4½ per cent and to reward to some extent by way of a patronage dividend, that is, an interest rebate to the borrowers and in this way take care of the extra money. But we are in no way compelled to pay an interest rebate except for the purpose of maintaining an average dividend.

COMMISSIONER MACKINTOSH: I don't know whether this is a question you would care to answer, but you mentioned long-term mortgage loans: Is this a phase of your business which you think is going to expand? Generally speaking, I gather you and other credit unions are taken up primarily with relatively short-term loans for household goods, appliances, cars and that kind of thing. Do you think as the movement grows it will move, perhaps, in the direction of a building society?

MR. OUELLETTE: Let me explain that there is a distinction I have to make. The mention we make in our brief on the mortgage lending operations pertains exclusively almost to the operation of our Central. There is no amount -- in fact it would be negligible, the amount of mortgage lending a credit union does in this province. The Central does, in fact, have a mortgage lending programme, but it is quite limited both in the amount available and in the time available, and it is attractive

to a certain group of people for certain specific reasons.

You asked, do we foresee an expansion of this type of lending activity on the part of the Credit Union Movement: I would have to say that the history and development of the Credit Union Movement elsewhere would lead us to believe that perhaps you will see some increase of this nature. The Credit Union Movement is designed to take care of the credit needs of its members, and certainly in the first place it is designed to take care of its short-term needs -- the needs for consumer credit have been met. But speaking from my own experience, and drawing upon the information we have from other parts, we find credit unions as they become large do, in fact, engage in this type of lending operation. Although personally we do not see it picking up sharply within the next five or ten years, we think it is only fair to admit there is a possibility.

COMMISSIONER MACKINTOSH: Aside from the large first mortgage, I would think in what you might call family finance there is a gap in terms of down-payment, second mortgages and all the other things that are frequently necessary to establish a house?

MR. SWALES: I would like to comment on this, Mr. Chairman, because I have also had considerable experience in the real estate field before I became a full-time manager of my credit

union. We have been into this secondary financing of houses quite extensively because of the abuses we feel and have seen take place in this.

COMMISSIONER MACKINTOSH: You say "we": You mean the credit union?

MR. SWALES: The credit union. We have had members who come to us and we have given them a loan for a part of a down-payment. We have also found members who have been buying a house and they didn't have enough for the down-payment, and they have arranged secondary financing elsewhere in which they have signed agreements for $1,000 and the down-payment was $700, and the notes have been discounted and sold, and this has been fairly prevalent, and it has in many instances pushed us into secondary financing on property because, after all, our purpose is do a job of real assistance to our members. But, this is not the normal field of mortgages when we talk of first mortgages. Long years ago when we set up the mortgage loan department in our Central Credit Union, and which is of a minor nature, it was done in an endeavour to encourage credit unions not to go into the mortgage loan field. We felt long-term financing was not for us, and we have done everything in our power to discourage it.

THE CHAIRMAN: These second mortgages that you invest in -- have you had any losses, or have you had enough experience yet?

MR. SWALES: Well, I would say generally

speaking, no. In other words, the people who are buying and investing in homes, even though it is secondary financing, seem much more conscious of repaying their obligations. I would say they are better risks on the whole than others.

THE CHAIRMAN: The second mortgages would be for a comparatively small amount of money?

MR. SWALES: They were generally for small amounts.

THE CHAIRMAN: What would they run at?

MR. SWALES: They would range anywhere from $500 to $2,000.

THE CHAIRMAN: Were those loans made to members?

MR. SWALES: Always to members.

THE CHAIRMAN: To members who at one time had put in some money -- shares in the union?

MR. SWALES: It has only occurred with our own members who come in and discuss their financial affairs with us, and we find out these things.

THE CHAIRMAN: So it is not quite as risky a situation as you might think at first glance?

MR. SWALES: Oh, no. I might say this boils over into the field we are developing much in the credit union today of family financial counselling, and in our credit union the credit committee will tell a member, "You cannot have a loan that has anything to do with property without coming in and seeing us first and letting us see all

the terms and conditions." We have prevented many of our members from making bad deals on a home in this way.

THE CHAIRMAN: You speak of cash reserves: What do you mean by cash -- does that include investments of a guilt edged nature?

MR. OUELLETTE: Yes, it does; it is cash and any items of investment that are readily convertible, and by that we generally regard 30 days -- practically demand,the deposits. This is cash.

THE CHAIRMAN: A bank deposit?

MR. OUELLETTE: That is right.

THE CHAIRMAN: A part of it is bank deposits and part of it short-term bonds?

MR. OUELLETTE: That is right.

THE CHAIRMAN: I see you have two types of reserves provided for in the statute: A reserve fund which is devoted to losses -- reserve against losses -- and the reserve funds against possible withdrawals; and the sort of investments that you would hold as against both of those reserve funds would be of a similar nature, would they?

MR. OUELLETTE: That is right, sir. In fact, the permitted investments for those funds are laid out in the standard bylaws which are an adjunct or a supplement to the Credit Union Act.

THE CHAIRMAN: Yes.

COMMISSIONER BROWN: On this matter of investments, I gather under the Act that your reserve

the terms and conditions." We have prevented many of our members from many bad deals on a home in this way.

THE CHAIRMAN. You speak of cash reserve. What do you mean by cash -- does that include investments of a quick cover nature?

MR. CUNLIFFE: Yes, it does; it is cash and any items of investment that are readily convertible, and by that we generally mean 30 days -- practically demand, the deposits. That is cash.

THE CHAIRMAN: A bank deposit?

THE CHAIRMAN: A part of it is bank deposits and part of it short-term notes?

MR. CUNLIFFE: That is right.

THE CHAIRMAN: I see you have two types of reserves provided for in the statute: a reserve fund which is devoted to losses -- to cover operating losses -- and the reserve fund against possible withdrawals; and the sort of investments that you would hold as against both of those reserve funds would be of a similar nature, would they?

In fact, the permitted investments for those funds are laid out in the standards bylaws which are an adjunct or a supplement to the credit union act.

BROWN. On this matter of

funds are invested by the Board of Directors from deposits -- under Section (e) and (f) of Sub-section (1) of Section 19 -- "Invest in the paid-up shares of such other credit unions as are approved for that purpose by the supervisor, and invest in any investments authorized by The Trustee Act."

Do you know to what extent this is done, and, also as a supplementary question, are there any interlocking ownerships where credit union A owns investment shares in credit union B, and credit union B investment shares in credit union A?

MR. OUELLETTE: First of all, Mr. Chairman, the extent to which one credit union, in fact, invests in another is practically non-existent. I will admit that in the early days of the development of the Movement in this province there was a limited amount of that. This was prior to the establishment of the Alberta Central Credit Union. The principal investment of one credit union into another was only into the Central which is, after all, technically only another credit union. So far as the interlocking is concerned, it doesn't exist. This is as far as the share structure is concerned. That was your question?

COMMISSIONER BROWN: Yes, that is right. Do I gather there is something else you might add?

MR. HUGHSON: I don't think it would even apply on deposits, sir.

COMMISSIONER BROWN: I just wondered if

Funds are invested by the Board of Directors from deposits -- under Section (e) and (f) of Sub-section (1) of Section 19 -- "invest in the paid-up shares of such other credit unions as are approved for that purpose by the supervisor, and invest in any investments authorized by the Trustee Act."

Do you know to what extent this is done, and, also as a supplementary question, are there 85
any interlocking ownerships where credit union A owns investment shares in credit union B, and credit union B investment shares in credit union A?

MR. COPITHORNE: First of all, Mr. Chairman, the extent to which one credit union, in fact, invests in another, is practically non-existent. I will admit that in the early days of the development of the Movement in this province there was a limited amount of that. This was prior to the establishment of the Alberta Central Credit Union. The principal investment of one credit union into another now is only into the Central which is, after all, technically only another credit union. So far as the interlocking is concerned, it doesn't exist. This is as far as the share structure is concerned. That was your question?

COMMISSIONER BROWN: Yes, that is right. So I gather there is something else you might add.

there was an implication there?

MR. OUELLETTE: No.

COMMISSIONER BROWN: Does the Central contemplate registering under the Canadian Co-operative Credit Act with the Superintendent of Insurance?

MR. OUELLETTE: It has, in fact, on more than one occasion in the past considered this possibility, but it has not so far registered under the Canadian Co-operative Credit Society, because of its ineligibility to do so, and this ineligibility is principally because of its mortgage operations -- limited to the Central Credit Union in this province. We are told this disqualifies the Central in this province from membership.

COMMISSIONER BROWN: Is this because you are lending to people who are, in fact, not members of Central?

MR. OUELLETTE: No. They are, in fact, individuals.

COMMISSIONER BROWN: Because you are lending to people who are not members of the Credit Union?

MR. OUELLETTE: They are members of the credit union.

COMMISSIONER BROWN: Do individuals become members of the Central?

MR. OUELLETTE: They do become associate members for the purpose of these loans. This programme was in existence before the incorporation of the Canadian Co-operative Credit Society.

THE CHAIRMAN: I am not quite clear why the

Superintendent of Insurance would refuse on that ground. I may not be familiar with his powers, but perhaps you would enlighten me on that. What is the difficulty?

MR. OUELLETTE: Mr. Chairman, this decision was given by the Superintendent of Insurance to the Movement in this province, again, before my time, so I will call upon a man who has some background in this and who is here now -- Mr. Swales.

MR. SWALES: First, I would have to confess we haven't been that anxious since we were originally told we were not eligible for membership because of the mortgage loans feature of our operation, and to be truthful, we haven't taken any pains or really looked into it too much in the last few years, but this is still my understanding, that we were told as long as we gave individual mortgage loans we were not eligible for membership in the Canadian Co-operative Credit Society.

MR. OUELLETTE: I might expand here -- and here again I am venturing an opinion, and I do hope it will be accepted in this way -- perhaps it is because the original idea of the Central was that it would, in fact, include in its membership other corporate bodies and any individuals, and in this particular programme it does include affiliate membership by individuals.

THE CHAIRMAN: I am curious to know why that would exclude the Superintendent of Insurance -- why that would be a reason for his refusal to supervise?

MR. OUELLETTE: All I can say is, that is

ident of Insurance would refuse on that ground.

you would enlighten me on that. What is the difficulty?

was given by the Superintendent of Insurance to the Movement in this province, again, before my time. So I will call upon a man who has some background in this and who is here now -- Mr. Swales.

MR. SWALES: First, I would have to confess we haven't been that anxious since we were originally told we were not eligible for membership because of the mortgage loans feature of our operation, and to be truthful, we haven't taken any time or really looked into it too much in the last few years, but this is still my understanding, that we were told as long as we gave individual mortgage loans we were not eligible for membership in the Canadian Co-operative

MR. ... : I might expand here -- and here again I am venturing an opinion, and I do hope it will be accepted in this way -- perhaps it is because the original idea of the Central was that it would in fact, include in its membership other corporate bodies and any individuals, and in this particular programme it does include attributed membership by individuals.

THE CHAIRMAN: I am curious to know why that would exclude the Superintendent of Insurance -- a reason for his refusal to someone

the given reason.

THE CHAIRMAN: There may be something in the Act.

MR. HUGHSON: I think, Mr. Chairman, as I recall it, there was some quibble at the time and some argument about the amount of reserves held by Alberta Central at that time. This situation has long since been taken care of but, as Mr. Swales points out, we have not reapproached them on the subject, and possibly now we would be eligible for it.

THE CHAIRMAN: Yes, because I cannot see why that fact would disqualify you from being registered with the Superintendent of Insurance.

MR. HUGHSON: At that time too I was on the board of Alberta Central --- I am sorry, sir.

THE CHAIRMAN: It may be at that time he felt your reserves were not sufficient in view of the mortgage type of investments which you had?

MR. HUGHSON: That is right, and the reserves we held at that time were principally in bonds that were carried on our books at purchase price and not at market value. That has been corrected since. I am sure if we went again we might find a different attitude.

COMMISSIONER LEMAN: Mr. Ouellette, at the bottom of page 3 of Appendix 7 you use the expression total "turnover" for all credit unions in 1960 amounted to nearly $90 million: Could you define for me in what sense you use "turnover" for this purpose?

THE CHAIRMAN: There may be something in the Act.

MR. HUGHSON: I think, Mr. Chairman, as I recall it, there was some quibble at the time and some argument about the amount of reserves held by Alberta Central at that time. This situation has long since been taken care of but, as Mr. Swales points out, we have not reapproached them on the subject, and possibly now we would be eligible for it.

THE CHAIRMAN: Yes, because I cannot see why that fact would disqualify you from being registered with the Superintendent of Insurance.

MR. HUGHSON: At that time too I was on the board of Alberta Central -- I am sorry, sir.

THE CHAIRMAN: It may be at that time it was felt your reserves were not sufficient in view of the mortgage type of investments which you [illegible]

MR. HUGHSON: That is right, and the reserves we held at that time were principally in bonds that were carried on our books at purchase price and not at market value. That has been rectified since. I am sure if we went again we might find a different attitude.

[illegible]: Mr. [illegible], at the bottom of page 3 of Appendix 1 you use the expression total "turnover" for all credit unions in 19[illegible] amounting to nearly $60 [illegible]. Could you define it? In what sense you [illegible]

MR. OUELLETTE: Mr. Chairman, first of all I would point out to you that the exhibit, although it is contained in our own brief, is , nevertheless, a publication of the supervisory authority of the government of this province. Therefore, I would prefer any definition of "turnover", since it is their term, be obtained from them -- I really don't know, and that is about the truth of it.

COMMISSIONER LEMAN: Could it mean the number of loan payments and new loans made, etc.?

MR. OUELLETTE: This would be my interpretation of it, and I am reasonably sure that this is accurate. However, as I say, this is nevertheless a term the government themselves in making this statistical report have used, and I would prefer the explanation be received from them.

COMMISSIONER GIBSON: Appendix 16 shows an analysis and breakdown of loans for one of the larger type unions. This brings out what you mentioned before, and in this case most of the loans are consumer and personal type to do with homes and appliances, and so on. Would this be typical of most Alberta credit unions?

MR. HUGHSON: Yes, definitely. In fact we can show you maybe a couple of hundred similar reports showing the same thing.

COMMISSIONER GIBSON: I notice here that business loans are a very small proportion of the total but they seem to be growing. Can you tell us something about business loans and what the trend is

here?

MR. OUELLETTE: Yes, Mr. Chairman, in fact the question I think can probably be answered best by the manager of the credit union, Mr. Swales.

MR. SWALES: Yes sir. These statistics, incidentally, are from my own credit union. We have given a few more business loans as you can see from this report, generally speaking for small businesses that have been unable to obtain bank credit and many times this has been done on the basis of a chattel mortgage or their personal car and so on. I might say that in all these business loans we have not taken the type of security collateral taken by the banks or other financial institutions. We do call them business loans because they are for and they have assisted these people in their small businesses but we have certainly taken other security upon that, personal guaranteed chattels, cars etc.

COMMISSIONER GIBSON: They are always loans to a person, an individual? Would they refer to a company?

MR. SWALES: No, we make no loans to any company. They are all individuals,generally small businessmen, just in a small business of their own.

MR. GIBSON: There are no loans made, for example,to co-operatives?

MR. SWALES: No, those are handled by Alberta Central Credit Union if any are members but not generally by the individual credit unions

COMMISSIONER GIBSON: What is your policy

MR. OUELLETTE: Yes, Mr. Chairman, in fact the question I think can probably be answered best by the manager of the credit union, Mr. Swales.

MR. SWALES: [illegible] incidentally, are from my own credit union. We have given a few more business loans as you can see from the report, generally speaking for small businesses that have been unable to obtain bank credit and many times this has been done on the basis of a chattel mortgage on their personal car and so on. I might say that in all these business loans we have not taken the type of security collateral taken by the banks or other financial institutions. We do call them business loans because they are for and they have assisted these people in their small businesses but we have certainly taken other security upon that.

COMMISSIONER GIBSON: They are always loans to a person, an individual? Would they refer to a company?

MR. SWALES: No, we make no loans to any company. They are all individuals, generally small businessmen, just in a small business of their own.

MR. GIBSON: There are no loans made, for example, to co-operatives?

MR. SWALES: No, those are handled by a B.C. Central Credit Union if any are members but not generally by the individual credit unions.

MR. GIBSON: What is yo[illegible]

in regard to business loans? Obviously you have not been making any very large number of them in the past and it appears that they are all associated with individual members of unions. There is no tendency to change this type of policy?

MR. SWALES: We do not think so. Quite honestly when a small businessman -- and we have many members who are small businessmen in our credit unions, especially the community type, as this is, our first question is: "Well, can you obtain this loan at the bank?" And only on the basis that they are unable to do so we consider it and then, as I say, only as a personal loan on that type of security.

THE CHAIRMAN: Would this loan be in an amount very much greater than the investment of the member in the union? What is your policy on loaning beyond the amount that the member has subscribed?

MR. OUELLETTE: Just on a point of clarification, are you directing this particularly at the business loan operation just discussed or the general policy you are seeking?

THE CHAIRMAN: Well, I was applying it to the business end of it. I suppose it could apply to the whole situation. I notice there are a great many loans in excess of the amount subscribed. I wondered if that has been the business loans to any great extent?

MR. SWALES: Well, many credit unions do require provision to have 10 or 15 per cent of their

savings of what they wish to borrow. In my own credit union we do not have this rule. We look at every application on its merits of what the member wants and his total financial position. There usually is not any set relationship between the amount they have in. They usually have the same average savings as our other members have.

THE CHAIRMAN: Could you give us any indication of the amount that might be lent in any one case. Does it vary much?

MR. SWALES: Mainly I would say they vary anywhere from $500 to $2,000.

THE CHAIRMAN: They are all moderate size loans?

MR. SWALES: Yes.

COMMISSIONER GIBSON: Would you make any much larger than $2,000?

MR. SWALES: A few but not many. Our average loans issued last year were something less than $500 -- $400 and something.

THE CHAIRMAN: That is the business loans?

MR. SWALES: No, on all our loans.

COMMISSIONER LEMAN: Well, Mr. Swales, if we look at Appendix 16 again there are quite a few categories of loans there and if we divide the amounts shown roughly by the amount of the loans outstanding it does indicate the average size of the loans but can I take that a Mr. Jones, for instance, would have had six loans of the different categories here?

MR. SWALES: No, what it generally means is that we take the attitude that we try to encourage our members to do all their small loans at the credit union. A man may have a $1,000 loan on his car and then his wife's washing machine breaks down and he comes in and borrows another $200. That is quite common, we issue the loan for $200 for a washing machine, a household appliance, but you already have had a loan of perhaps $1,000 on his car so these are statistics of average loans issued and average out at less than $500. The average today is around $900 to $1,000.

COMMISSIONER LEMAN: So one individual could have had four of these loans of these categories?

MR. SWALES: He could, yes.

COMMISSIONER LEMAN: How hard and fast is the rule about having your members borrow from the credit union only and not borrow from Tom, Dick and Harry at the same time?

MR. SWALES: Well, of course, we encourage them always to borrow from us because we believe that if they consolidate their small personal lending in this one place they will budget and control their finances better but we certainly do find many members who are financing at other places too.

COMMISSIONER LEMAN: Well, do you apply any pressure on them to stop that?

MR. SWALES: Well, we encourage them by little newsletters and advertisements, publicity and we talk to all our members. We do everything

we can to encourage them to consolidate their personal loans in one place.

COMMISSIONER LEMAN: And this would exclude, of course, mortgages on their houses, you would not mind if he had a substantial mortgage outstanding and was borrowing for appliances?

MR. SWALES: That is right, I endeavour to analyze his financial position and I like to feel that we lend people money at which we feel is a very reasonable amount to repay. Then, the one thing we stress that when people do get credit from too many sources, they get into difficulties. Too many people are not as careful in going into their whole financial setup simply because they are being issued greater credit. But the credit unions are endeavouring to combat that.

COMMISSIONER GIBSON: Do you turn any applications down?

MR. SWALES: Quite a number and that has actually increased in my own credit union in the last year or so.

COMMISSIONER GIBSON: On what sort of grounds would you turn them down?

MR. SWALES: Mainly we find some people become, in our own opinion based on years of experience with our credit conditions, we have found a greater number of people becoming over-extended in the personal loan field. Five years ago if a young couple came to you and they were $2,500 in debt we would think that was a lot of money to have out in personal

debts. Now you get them from $5,000 and up and another thing that our experience teaches us: We are turning down some young people who want to go too fast into too many things when they get married. We are endeavouring to have them slow down and manage their finances better because we have seen a great deal of unhappiness created in young families particularly through the improper use of credit.

COMMISSIONER MacKEEN: That credit would be used for appliances and furniture and that type of thing before they come to you to make a loan?

MR. SWALES: Many times they are involved before they come.

COMMISSIONER GIBSON: Do they take your advice quite often or do they fly off and try to borrow the money somewhere else?

MR. SWALES: They do not always take our advice and this has forced us into another field that we are doing more of and that is pooling of accounts in which we have people come in and we arrange a system whereby they bring in so much every payday and we pay out their accounts. We do not lend them any money but we phone up, their six or eight creditors and say: "Will you accept so much a month?" and we provide that service to our members.

MR. OUELLETTE: Every six months these persons must come in and make contact with the organization; we deliver certain directions to them and probably six visits of this type are better than one and they do take effect. This is the idea

behind it that they will follow advice.

COMMISSIONER LEMAN: Anyone can be a member of more than one credit union?

MR. OUELLETTE: Some one individual?

COMMISSIONER LEMAN: Yes.

MR. OUELLETTE: This is a possibility, yes.

COMMISSIONER LEMAN: Do you have a cross-checking system?

MR. HUGHSON: No.

THE CHAIRMAN: In many cases you would have to rely on the applicant's word for it, wouldn't you? If he borrowed money from several sources there would be no way of checking.

COMMISSIONER GIBSON: Would you get credit agency reports on some people paying payments?

MR. OUELLETTE: There has been a tendency in the last few years for credit unions to avail themselves of the facilities of credit agencies, more so than in the past. It is true, I think, this is possibly brought about by the fact that credit unions have grown and expanded and become successful but the multiplication of the membership brings a different problem to the membership which did not exist when the movement was started. This has forced the use of these credit facilities.

THE CHAIRMAN: If the union knows everybody it would not be necessary.

MR. OUELLETTE: That is right.

COMMISSIONER LEMAN: Mr. Ouellette, on page 15 of the main brief, paragraph 35, as I read

that paragraph, the credit unions use cash for accounting purposes rather than the accrual system.

MR. OUELLETTE: Once again, sir, what is the section?

COMMISSIONER LEMAN: Section 35. Is my conclusion correct that I would infer from this paragraph that you are on a cash basis for accounting rather than an accrual basis?

MR. OUELLETTE: Yes.

COMMISSIONER LEMAN: That is true of the credit unions but I note that the Central is on the accrual basis?

MR. OUELLETTE: That is right.

COMMISSIONER LEMAN: Would you be inclined to counsel the credit unions to get their accounts on an accrual basis too?

MR. OUELLETTE: This, of course, is counsel that has prevailed. I think the government being the supervisory authority it has in fact been their advice that has brought about this situation accounting-wise within the operations of the credit unions. Speaking personally -- and I am not at all sure if all the gentlemen agree with me -- but speaking personally and recognizing that the credit union involves a great number of people with a variety of abilities in many ways I would think possibly the cash rather than accrual basis was the better. As far as the business organizations, such as Central, which is a much more substantial operation, I think the accrual basis is the best.

COMMISSIONER LEMAN: The last sentence says:

> "We may then consider this unaccrued interest to be a further reserve against future loans."

Have you any idea what this might amount to?

MR. OUELLETTE: In the aggregate?

COMMISSIONER LEMAN: Yes.

MR. OUELLETTE: I have no idea, sir. I am afraid we do not have statistics. Certainly I take great pleasure in filing that type of information with your Commissioner if you felt the need was of sufficient importance.

COMMISSIONER LEMAN: Can you make a guesstimate for me? I was asking if you think it was negligible or significant?

MR. OUELLETTE: I would think there would be a reasonably substantial amount of money.

MR. SWALES: I have not sharpened my pencil but 1 per cent of the outstanding loan at the end of the year, I would say that would be the minimum of the amount, that is 1 per cent, and the outstanding loans at the end of the year were $25 million.

COMMISSIONER LEMAN: Of that order, yes.

MR. HUGHSON: That is as of the end of 1960.

MR. SWALES: So that would mean $250,000?

COMMISSIONER LEMAN: That is right.

THE CHAIRMAN: I think this might be an appropriate time for an adjournment for 10 or 15

minutes. You gentlemen have been under great pressure.

--- Short recess.

THE CHAIRMAN: The meeting will now resume.

COMMISSIONER BROWN: Could I ask if you could tell us about your relationships with other national institutions such as chartered banks, treasury branches, and so forth: Are they in competition with you, or supplementary to you?

MR. OUELLETTE: Well, to start off, Mr. Chairman, in a sense of the word, it depends on a lot on your own point of view, I suppose, and I would have to say that, by and large, credit union people do not regard themselves as a competitive financial institution. They regard themselves as a social movement, and they realize they are dealing in money and monetary matters. From a purely monetary point of view I would say, yes, I suppose there is an element of competition involved. I think it differs from one institution to another. For example, I don't believe -- at least here in the province of Alberta -- there is any marked degree of competition between the operations of credit unions and those of banks, because I think the area of operations is quite different in each case. I do admit to a small degree of overlapping, but I think it is a small degree in this province. However, on the other hand I feel perhaps I have the support of the other members of this delegation in this that I readily admit there

minutes. You gentlemen have been under great
[illegible]

--- Short recess.

THE CHAIRMAN: The meeting will now resume.

COMMISSIONER BROWN: Could I ask if you could tell us about your relationships with other national institutions such as chartered banks, treasury branches, and so forth: Are they in competition with you, or supplementary to you?

MR. OUELLETTE: Well, to start off, Mr. Chairman, in a sense of the word, it depends on a lot on your own point of view, I suppose, and I would have to say that by and large, credit unions do not regard themselves as a competitive financial [illegible] movement, and they realize they are dealing in money and monetary matters. From a purely monetary point of view I would say, yes, I suppose there is an element of competition involved. I think it differs from one institution to another. For example, I don't believe -- at least here in the province of Alberta -- there is any marked degree of competition between the operations of credit unions and those of banks, because I think the area of operations is quite different in each case. I do admit to a small degree of overlapping, but I think it is a small degree in this province. However, on the other hand I feel perhaps I have the support of the other members

is quite a great amount of competition between the operations of credit unions and other financial agencies, particularly the consumer finance agencies -- the small loan agencies. This competition, I think we have to admit, is there. I think it would be less than honest to say it was not. However, we are not keenly aware or concerned with competition, if this makes sense to you. It is not our purpose to be highly successful financial organizations. We hope, on the other hand, to be highly successful social organizations.

COMMISSIONER BROWN: Along the same lines, could you give us a picture of the varieties of common bond? Do they range from small industrial organizations to a large municipality or city?

MR. OUELLETTE: Not quite as large as that. First of all, the principle of the bonds of association are four in number: They are community, industrial, associational and parochial. The community and associations are both urban and rural in character, the city of Calgary particularly being rather well developed with a system of urban community credit unions; probably, in fact, it is somewhat outstanding in the entire Credit Union Movement in this respect. The urban areas of this province have not been too well developed until very recently, and the noted increase in organization activity, you will see in the facts laid before you in this particular direction, has been in the development of the rural community type of community credit union.

The industrial organizations range over a wide number from the very small industry -- almost a private industry -- to the large plants. To give an example, we have a credit union organized amongst the employees of the drug outlets in the city here in Edmonton. This is,naturally enough, quite a small operation. On the other hand, we have organizations of credit unions that are industrial in character amongst such organizations as the Safeway merchandising operations which, of course, can be found in every city in this province.

We do not have in Alberta too many parochial credit unions. There are a few, and usually these have another identification, and it is usually ethnic and religious -- naturally, being parochial. In the French Canadian communities we do have a few parochial credit unions.

Associational, we have a few of those and they are generally amongst such groups as the Canadian Legion.

COMMISSIONER LEMAN: If we might turn a little to the question of liquidity reserves, would you say that the credit unions that have deposits with the Central consider those deposits as liquid reserves?

MR. OUELLETTE: Yes.

COMMISSIONER LEMAN: That in their eyes is part of their liquidity?

MR. OUELLETTE: Yes.

COMMISSIONER LEMAN: I am now looking at the

Central's balance sheet as at the end of 1960, and I see you classify as current assets about $400,000 of highly liquid assets, and you show in current liabilities about $1.3 million of current liabilities so that the Central's liquidity reserve is constituted by what?

MR. OUELLETTE: Central's liquidity reserve is made up, of course, of its cash balances plus its short-term investments -- that is, readily recoverable investments such as item No. 4 -- the deposit of receipts at the bank.

COMMISSIONER LEMAN: And what you show there in investments are marketable securities at cost: Would you consider that highly liquid?

MR. OUELLETTE: No.

COMMISSIONER LEMAN: So that as of that date the liquidity of the Central was not particularly high, was it?

MR. OUELLETTE: No.

COMMISSIONER LEMAN: So, to what extent do the individual credit unions who have deposits with you -- and I see two kinds: You say checking accounts and deposit accounts -- if they regard their deposits with you as liquidity reserves, to what extent do they understand the Central's position? In other words, are they fairly cognisant of the extent to which you could or could not at any given moment let them cash in?

MR. OUELLETTE: I believe they are cognisant, yes, of it. I would like to add that the Central

has never at any time had difficulty in meeting withdrawal demand placed upon it.

COMMISSIONER LEMAN: Do you have a bank line that would help you to do that?

MR. OUELLETTE: Yes. This line of credit to which you refer, naturally, varies from time to time in so far as the bank are interested in expanding their credit or retracting it. I can say at the present time we have a very adequate line of credit established for the institution.

COMMISSIONER LEMAN: In the sense that the words "liquidity reserve" are usually used, that is what constitutes the Central liquidity?

MR. OUELLETTE: I would say so, yes.

COMMISSIONER LEMAN: I would like to ask one more question, Mr. Chairman. The Act under which you operate specifies what are the investments that the credit unions can make, and I think in general they are restricted to those authorized by the Trustee Act of Alberta. Is everyone satisfied with this? Do you feel this is too restrictive, that you would like to have more leeway in your investment policy?

MR. OUELLETTE: Are you directing your question in relation to the operations of a credit union or are you intending to ask concerning Central?

COMMISSIONER LEMAN: I think I mean credit unions first, because I was referring to the Act so far as it concerns them.

MR. OUELLETTE: Yes. Generally speaking,

has never at any time had difficulty in meeting withdrawal demand placed upon it.

COMMISSIONER LEMAN: Do you have a bank line that would help you to do that?

MR. OUELLETTE: Yes. This line of credit to which you refer, naturally, varies from time to time in so far as the bank are interested in expanding their credit or retracting it. I can say at the present time we have a very adequate line of credit established for the institution.

COMMISSIONER LEMAN: In the sense that the words "liquidity reserve" are usually used, that is what constitutes the Central liquidity?

MR. OUELLETTE: I would say so, yes.

COMMISSIONER LEMAN: I would like to ask one more question Mr. Chairman. The Act under which you operate specifies what are the investments that the credit unions can make, and I think in general they are restricted to those authorized by the Trustee Act of Alberta. Is everyone satisfied with these? Do you feel this is too restrictive, that you would like to have more leeway in your investment policy?

MR. OUELLETTE: Are you directing your question in relation to the operations of a credit union or are you intending to ask concerning Central?

COMMISSIONER LEMAN: I think I mean credit unions first, because I was referring to the Act in so far as it

we see no agitation of any appreciable degree at least, for an expansion or relaxation of that nature. As was mentioned, I think, earlier this afternoon we do make annual representation, formal representation, to the government of this province, and we do make informal representation on a much more frequent basis than that. We are quite aware and quite sensitive to any pickup or acceleration of demand for this type of legislative relaxation or some relief of this nature. But, we have never, to my knowledge, had any marked expression for relaxation for the type of investment that could be made by credit unions.

COMMISSIONER LEMAN: How about the Central itself? What are the restrictions on it -- or, are they purely voluntary?

MR. OUELLETTE: They are the restrictions of the Credit Union Act which you have in front of you, since we are, infact, incorporated under that Act.

COMMISSIONER LEMAN: The same thing?

MR. OUELLETTE: Except there is a section of that Act which also says "in any other investments that may be approved by the Supervisor". In this particular section we have had various programmes we maintain -- for example, the one we mentioned earlier: The mortgage programme in the Central.

COMMISSIONER BROWN: On these mortgages, I get the impression they were all individual mortgages. I notice on your balance sheet when you

come to credit unions and co-operatives you say including mortgages -- would these be fairly large loans to co-operatives?

MR. OUELLETTE: It would be to credit unions and co-operatives. This is under Section 2 -- Assets?

COMMISSIONER BROWN: Yes.

MR. OUELLETTE: Yes, these are corporate mortgages issued to these particular organizations for the purpose of office premises and business outlets. As to the size of them I would say the average size of these mortgages would probably be less than $20,000 average.

COMMISSIONER BROWN: What would be the maximum?

MR. OUELLETTE: I would say the maximum at that time, as of December 31, 1960 ---

COMMISSIONER BROWN: What is the maximum now?

MR. OUELLETTE: I would say the maximum now, I believe, is $75,000.

COMMISSIONER BROWN: That would be to a co-operative?

MR. OUELLETTE: Yes, that would be to a co-operative.

COMMISSIONER BROWN: Have you any loans to co-operatives that are almost of a standing nature in the sense they carry on from year to year?

MR. OUELLETTE: No. In Central we do operate so-called lines of credit -- "so-called"

because strictly speaking they are not that. These are terminated at the end of each and every year as far as we are concerned.

COMMISSIONER BROWN: Do you supply these to the credit unions too?

MR. OUELLETTE: Yes.

COMMISSIONER BROWN: They all get paid off at some time during the year?

MR. OUELLETTE: That is correct.

COMMISSIONER GIBSON: It is not just a matter of annual review; you actually see that they are paid off?

MR. OUELLETTE: We insist upon annual repayment of these things, yes. This is, in fact, a requirement of the government of this province as well as our own.

COMMISSIONER GIBSON: I realize that the strongest factors in the growth of credit unions have to do with the organization and the interest of the members and social purposes, but I think it is also true that the net return on shares is reasonably good: Could you give us an idea of that? I mean, you pay dividends: What would be a sort of average return on the shares in credit unions?

MR. OUELLETTE: At the present time I would suggest about 4 per cent.

COMMISSIONER GIBSON: That is including the dividends?

MR. OUELLETTE: This is dividends on shares. Patronage refunds would probably run at about

10 per cent -- 10 per cent of the amounts paid.

COMMISSIONER GIBSON: Yes, I see. So, it might be 4-1/4 or 4-½ per cent?

MR. OUELLETTE: In total?

COMMISSIONER GIBSON: Yes.

MR. OUELLETTE: Yes.

COMMISSIONER GIBSON: Do you feel the fact that you have a net rate of that kind is of considerable significance in attracting deposits?

MR. OUELLETTE: I think perhaps Mr. Hewitt would answer that.

MR. HEWITT: What was that question again?

COMMISSIONER GIBSON: I wondered how important you think is the fact that the people who buy shares from credit unions are getting a return of 4½ per cent or 4-1/4 per cent in attracting deposits? Do you regard that as an important factor in attracting the purchase of shares -- I am sorry to use the word "deposits"?

MR. HEWITT: Partly I would say, yes, but a great deal is -- the shares go because we insist on a member who is borrowing also paying back part of his money in shares. At the same time he is paying back his loan he is buying shares, so that our share capital rises in spite of the fact we are also loaning money. That accounts for a good deal of the share capital: Not so much the investment part of it.

COMMISSIONER GIBSON: In other words, if you are making a loan you have got to do something

about building your share interest?

MR. HEWITT: Yes.

COMMISSIONER GIBSON: How about the life insurance feature: Is that important?

MR. HEWITT: Oh, I think so, yes, considerably. That has considerable importance in building up on shares because the insurance company pays dollar for dollar up to 55, then it lessens according to age.

COMMISSIONER GIBSON: Do you figure that is worth 1 per cent?

MR. HUGHSON: About 3/4 of 1 per cent.

MR. HEWITT: It is not quite 1 per cent.

THE CHAIRMAN: I notice under Section 41, reserve funds for bad debts, you have to take 20 percent of the net earnings and set them aside for reserve?

MR. HEWITT: That is right.

THE CHAIRMAN: So that your 4 per cent is after setting aside that?

MR. HEWITT: Yes, that has to be put up first.

THE CHAIRMAN: So that if there are no bad debts then, of course, in time there is quite a substantial amount.

MR. HEWITT: Yes, it accumulates, of course.

THE CHAIRMAN: Of course it makes quite a difference to the shareholders eventually.

MR. HEWITT: Yes.

THE CHAIRMAN: But that is designed to

follows

strengthen the reserve position?

MR. HEWITT: Yes, definitely.

THE CHAIRMAN: Do you know whether other credit union acts have that same provision? I do not recall it being in the British Columbia Act.

MR. OUELLETTE: Yes it is. In fact I think that credit union operation is almost universal. It applies, I think, pretty well to all of them.

COMMISSIONER BROWN: Do you want me to introduce the subject of taxation at all?

COMMISSIONER LEMAN: This is a bad word.

THE CHAIRMAN: It is anathema to more people than credit unions.

COMMISSIONER BROWN: Mr. Ouellette, what is the situation there?

MR. OUELLETTE: In what sense, sir?

COMMISSIONER BROWN: Federal taxes, provincial taxes and what are the exigibles?

MR. OUELLETTE: In the operation of credit unions?

COMMISSIONER BROWN: Yes.

MR. OUELLETTE: Well, certainly as far as the operation of credit unions are concerned in the province of Alberta they are subject to the same taxation as any other business enterprise in the municipal area in which they are located. Provincial taxes, of course, in so far as they apply to the situation are also applied to credit unions. In so far as federal taxes are concerned credit unions do in fact claim to pay taxes due to the fact that

their earnings are distributed back to the members in the form of dividends. This is, of course, a point as we all recognize, one that is under serious debate at all times or it has been, I should say, for a considerable length of time in Canada and I think possibly the position of the credit union movement in this regard particularly this particular point on taxation will be dealt with in a very extensive manner in our national brief and I would defer to our national brief for taxation.

COMMISSIONER BROWN: This is the tax on the share dividend?

MR. OUELLETTE: Yes.

COMMISSIONER BROWN: But you pay no taxes at all on reserves or surplus earnings of the credit union as such?

MR. OUELLETTE; Income taxes?

COMMISSIONER BROWN: Yes.

MR. OUELLETTE: No.

MR. HEWITT: If an individual interest amounts to over $100 then he has to pay taxes on it.

COMMISSIONER BROWN: I think under the Act he does not have to pay even if it is less but he does not have to declare it.

THE CHAIRMAN: Further questions? Then that concludes the hearing. We appreciate very much your submission, gentlemen. They have been of great interest to us and we will give them careful consideration in due course.

MR. HEWITT: May I thank you, sirs, for the impartial and interesting way in which you received our presentation. Thank you very much.

THE CHAIRMAN: The Commission will adjourn until 9.15 tomorrow morning and we shall hear the submission from the Farmers' Union.

--- Adjournment.

Royal Commission on Banking and Finance

Hearings held at

Edmonton

Vol.	Date.
5A	March 19, 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

SUMMARY

ALBERTA BRIEF ON CREDIT UNIONS

TO THE

ROYAL COMMISSION ON BANKING AND FINANCE

Purpose

1. The purpose of this Brief is to present a complete picture of the Credit Union Movement in Alberta. This will cover the period between 1938 and 1960. This Brief will not necessarily relate to the questionnaire because much of the information is not yet available. This will be included in the National Brief.

Objectives

2. The principal objective of the Movement in Alberta is to establish a co-operative enterprize to provide low-cost credit to members. Other objectives are the provision of a savings institution, training in money management, savings and loan insurance and lessons in democracy.

Organization

3. Credit Unions are organized under the Credit Union Act, among persons having a common bond of association. They are operated by elected directors, credit and supervisory committees and managed by a paid secretary-treasurer. Credit Unions are further organized into a league having membership in national associations. These provide sources of advice, research, guidance, protection and promote further organization, and growth.

Promotion and Education

4. Following educational work among interested groups, Credit Unions are chartered by the Provincial Government. Each Credit Union receives assistance from the League. The officers are trained in their duties and responsibilities by the League through Chapters, Conferences and Literature.

Operation

5. The Directors have full management of the Credit Union subject to the approval of the members in Annual Meeting and according to the Credit Union Act. Actual conduct of

business is carried on by the manager or secretary-treasurer who alone is paid for his services. The Credit Committee passes on loans for provident, productive or merchandising reasons. Security and repayment schedules on loans are arranged by this committee. The Supervisory Committee conducts quarterly audits to check on operations. An annual audit is also made by the Government Examination Branch or Chartered Accountant.

Services and Accomplishments

6. Credit Unions perform four basic services. These are Savings, Loans, Insurance and Financial Counselling. Savings are made by members who purchase dividend earning shares. Loans are made, principally in the Personal and Small Loan Field at fair rates of interest. Insurance is provided to members on share savings and loans. Counselling is given in Family Finance by Credit Union Officers and through literature on the subject. Through elections of officers and participation at Annual Meetings, members learn about democracy and money management.

History of Credit Unions in Alberta

7. The first Credit Unions were chartered in Alberta in 1938. Growth has been steady until, at the end of 1960, there were 253 Credit Unions having 77,938 members owning $29,215,581.83 in assets. The Credit Union League was formed in 1942 and chartered in 1944. More than 250 Credit Unions are members of the League. The Alberta Central Credit Union, Ltd. was formed in 1947 as a deposit and loan institution for Credit Unions and Co-operatives in Alberta. Some 270 Credit Unions held membership at the end of 1961.

History of Liquidations and Mergers

8. Between the years 1938 and 1960, some 367 Credit Unions were chartered. Of these, 84 have been dissolved for various reasons, 12 are shown as inactive, 5 amalgamations have taken place and 7 are not reporting regularly and are also considered inactive.

In most cases, no losses to shareholders has occurred. Four charters were issued in error.

Reserves
Guaranty
Fund
Investments
Bonding
Stabilization
Liquidity

9. The Credit Union Act requires that each Credit Union must maintain liquid reserves equal to 5% of paid-up capital (shares) and 10% of deposits except that where orders are allowed to be drawn on deposits, 25% is required on the latter. In practice, most Credit Unions hold greater reserves than this. Investment figures are 22.6% of shares and deposits and 19.9% of assets. Each Credit Union must set aside 20% of Net earnings before dividends plus all fees and fines into a Guaranty Fund against bad loans. Write-offs to the Guaranty Fund amounted .109% of total loans to the end of 1960. Present Guaranty Funds equal 3.5% of total shares and deposits and 4.08% of loans. Cash reserves stand at 7.1% of shares and deposits, 6.3% of assets while cash and investments are 19.9% of assets. In addition to these reserves, League member Credit Unions participate in a Stabilization Fund that will, by 1963, total $200,000.00. The stated objective of this Fund is to under-write Credit Union members share holdings. All Credit Union officers and employees are bonded in a minimum amount equal to from 10% to 15% of total assets as required by the Credit Union Act. Most Credit Unions carry bonds for much larger amounts. The Act provides for retention of earnings when loan delinquency is above 40%. Funds invested in Alberta Central Credit Union, Ltd. constitute an additional reserve. All investments must be in liquid form as against shares, deposits and loans.

Loan
Practices

10. Loans are generally restricted to the Personal Loan Field. However, as Credit Unions get larger, more of the Mortgage types are being granted. Terms are from 12 to 18 months, and occassionally up to 36 months. Security is most often by way

of Chattel Mortgage and Co-signors. Trends indicate larger loans for longer periods can be expected. Every effort is made to make "cash buyers" of members. The basic interest rate is 1% per month on the unpaid balance. Members know what they pay in interest charges.

Conclusions

11. Growth is bringing problems in investment fields, money management, administration and human relations. Active study of these is carried on by officers, managers, and members under the auspices of the League and Credit Union National Association. Confidence is expressed that the people are capable of managing their financial affairs. We believe that Credit Unions should be governed by Provincial Legislation, taking into account the varying conditions throughout the country, so as to better serve the members. The Credit Union Movement is of the people and must be geared to their needs. Any control that tends to overlook this, is not to be contemplated.

ALBERTA BRIEF ON CREDIT UNIONS
TO THE
ROYAL COMMISSION ON BANKING AND FINANCE

Purpose of Brief

1. We intend to present a complete and detailed picture of the Credit Union Movement in Alberta. This will cover the period from our beginnings in 1938 to the end of 1960, and will also include some reference to figures obtainable for 1961. This Brief will cover Alberta development only. We expect our national organizations, namely, the National Association of Canadian Credit Unions and the Credit Union National Association, to cover all matters of Federal significance. This Brief will not necessarily relate to the questionnaire, because much of the information required has not yet been prepared.

Object of Credit Unions

2. The principal object of the Credit Union Movement in Alberta is the establishment of a co-operative enterprise among groups of people. These people have a common bond of association and are members of individual Credit Unions. The further object of all Credit Unions is to create a fund of money as a source of credit for their members. Money is loaned to credit union members at legal rates of interest. Loans are made for provident, productive and merchandising purposes. Another objective is to provide a convenient place to save money with a moderate rate of return on such savings. Incidental to these objectives is that of teaching people to manage their own money.

How Credit Unions are Organized

3. The Credit Union Act, Section 4, Sub.- Sec. 2 (c), (Appendix I A), permits any ten adult residents, having a common bond of association, to apply for a Credit Union charter. In the early years of Credit Union development, quite a number of Credit Unions became incorporated and began operations almost as simply as that. Naturally, one of the first ideas that occured to these closely knit groups was to obtain advice and information from a source beyond themselves. Usually, this kind of assistanc was only forthcoming from sources quite remote in distance

ALBERTA BRIEF ON CREDIT UNIONS
TO THE
ROYAL COMMISSION ON BANKING AND FINANCE

Purpose of the Brief

1. We intend to present a complete and detailed picture of the Credit Union Movement in Alberta. This will cover the period from our beginnings in 1938 to the end of 1960 and will also include some reference to figures available for 1961. This Brief will cover Alberta's development only. We expect our national organizations, namely, the National Association of Canadian Credit Unions and the Credit Union National Association, to cover all matters of a federal significance. This Brief will not necessarily relate to the present time, because much of the information required has not yet been prepared.

Object of Credit Unions

2. The principal object of the Credit Union Movement in Alberta is the establishment of a co-operative enterprise among groups of people. These people have a common bond of association and are members of individual Credit Unions. The further object of all Credit Unions is to create a fund of money as a source of credit for their members. Money is loaned to credit union members at legal rates of interest. Loans are made for provident, productive and merchandising purposes. Another objective is to provide a convenient place to save money with a moderate rate of return on such savings. Incidental to these objectives is that of teaching people to manage their own money.

How Credit Unions are Organized

3. The Credit Union Act, Section 4, Sub.-Sec. 2 (c), (Appendix II A), permits any ten adult residents, having a common bond of association, to apply for a Credit Union charter. In the early years of Credit Union development, quite a number of Credit Unions became incorporated and began operations almost as simply as that. Naturally, one of the first needs that occurred to these closely knit groups was to obtain advice and information from a source beyond themselves. Usually, this kind of assistance was only forthcoming from sources quite remote in distance

and sometimes in character.

Assistance to Credit Unions

4. In 1942, the then existing Credit Unions organized the Credit Union League under permissive legislation of the Province. With the advent of an association of Credit Unions in Alberta, the method of organization of new Credit Unions under-went a change. One of the foremost objectives of the League was the organization of new groups. (Appendix II A). The League is now the medium of initial contact with groups wishing to organize.

Preliminary Instruction and lead up work

5. When an area of interest in the forming of a Credit Union comes to the attention of the League, one of its staff, specially trained and adapted for this kind of work, is assigned to it. This staff member becomes the organizer. His first task is to arrange with the group a series of study meetings. At these meetings, the complete idea and the principles of operation are explored. The prospective members are urged to familiarlize themselves by individual study. This includes all of the many aspects of the Credit Unions. The Meetings are usually held in the homes of those interested. The third meeting in the series deals with a number of local factors that will be important in the successful operation of the enterprise in the community, or the plant in which the credit union is intended to operate. The group makes the final decision whether or not to apply for incorporation. It is emphasized that there is no coercion whatsoever in the decision to organize.

The Charter Meeting

6. Where the decision of the group is to apply for a charter, under the Credit Union Act, a further meeting is set up by the organizer. This meeting is called the "Charter Meeting." Here the necessary documents are drawn up for the application to the Government. The two main chartering documents are the "Memorandum of Association", Appendix III A, and

"Supplemental By - Laws", Appendix III B. If the granting of the charter is approved and granted under the Act, these documents together with the Act and the Standard By-Laws (Appendix I A, B) constitute the regulations under which the Credit Union will operate.

The Organization Meeting

7. It usually takes about three weeks for the charter to be approved and granted. When and if the group receives its charter from the government, a further meeting is arranged for the purpose of final organization. The main functioning officers of the Credit Union are elected and instructed at this meeting. This includes a detailed schedule of their duties and responsibilities. The principal committees elected are the Board of Directors, the Credit Committee, the Supervisory Committee and the Secretary-Treasurer. This latter position is sometimes occupied by two persons. However, the usual practice is for one person to hold the position. All of these officers and their various responsibilities are described in attached Appendix IV, A, B, C. The newly elected Board of Directors meet immediately after the adjournment of the Organization Meeting. Decisions of this meeting include bonding arrangements as set out in the Act and the Standard By-laws, the banking institution through which the Credit Union will conduct its business, office location, hours of business and other details pertaining to the initial operations of the Credit Union.

Follow-up and Officer's Training

8. The conditions described above are usual for organizations in Alberta when commencing operations. The Credit Union members and officers will continue to be in direct contact with the League. It is customary for League officials to make periodic visits to the various officers at monthly meetings and

the membership at Annual Meetings. In addition to this, regular "instruction schools" are conducted throughout the Province by the League. A chart in which is detailed this activity of the League is attached. (Appendix V).

Typical Operation of a Credit Union

9. The membership of a Credit Union is the ultimate authority of the organization provided that all of the acts are consistent with the requirements of the Credit Union Act. The membership actually delegates its authority for carrying on of business to the Board of Directors. The Board meets once per month. The setting of policies regarding loans, shares, dividends and other procedures is determined by the Board. The day to day member contact with the members is carried on by the Secretary-Treasurer. Applications for loans by the members are submitted to the Credit Committee either directly or through the Secretary-Treasurer. The Credit Committee is responsible directly to the membership for approval of loan applications. It does, however, report upon its activities to the Board directly. The Supervisory Committee forms the internal audit group and is directly responsible to the membership for the soundness of the operation.

Practical Accomplishments of Credit Unions

10. It is significant to note that, under the Credit Union Act, Section 10, Sub-Section (1), (Appendix I A), all Credit Unions are required to include the words "Savings and Credit Union" in their name. We believe that "Savings" has always been a prime factor and objective although the "Credit" function has been more widely publicized. In spite of this, our four major accomplishments have been in the fields of Savings, Loans, Insurance and Financial Counselling or Money Management.

Savings

11. Our first objective is to teach our members the idea of thrift through regular savings. Every member must have savings before any service is available and all members are encouraged

[illegible] regular [illegible]

[illegible] by the League. [illegible]

activity of the League [illegible] (Appendix [illegible]).

9. The membership of [illegible] of the organization [illegible] with [illegible] ship [illegible] its authority [illegible] to the Board of Directors. [illegible] The [illegible] other [illegible] member [illegible] of the [illegible] is carried on by the Secretary [illegible] Treasurer [illegible] the Council [illegible] Secretary-Treasurer. [illegible] The Council [illegible] The [illegible] [illegible] the executive.

10. It is [illegible] (Appendix [illegible]) [illegible] the words [illegible] We [illegible] "[illegible]" [illegible] political [illegible] been in the [illegible] of [illegible] [illegible] Washington.

11. Our first [illegible] the [illegible] [illegible]

to save regularly regardless of their financial standing. Savings are thus the very corner-stone of our sound Credit Union development in Alberta. There are two aspects of the savings programs that are different from other financial institutions. First, we encourage savings even from members able to save only small amounts at a time. Many substantial savings have been accumulated by such persons over the years. It is not unusual to have these savings in no more than $1.00 amounts, which other savings institutions do not welcome. Second, we encourage and solicit savings from our members even when they are re-paying a loan. By this method we enable them to eventually get out of debt. We are proving daily that one cannot borrow oneself out of debt, but one can "save" oneself out of debt. Although the payment of dividends on shares is a factor in promoting savings, we do not stress them as a sole reason for saving. We are continually pointing out in our publicity the value of building up savings by small amounts over 5 to 10 years time.

Loans

12. The program of savings would not be complete nor effective if there was no purpose for it. Of course, the purpose is to create a source of credit for the members at legitimate rates of interest for good reasons. Our experience shows that a large percentage of our savings is always on loan to our members (90% at the end of 1960). Through our lending program, we have tried to make "cash buyers" of our members. We have taught them that shopping for cash will save them money. We have encouraged our members to obtain all personal credit from one source so they may control the amount of debt and the size of the monthly payments. Credit Unions in Alberta may not charge more than 1% on the unpaid balance, or 12% per annum simple interest. Many Credit Unions pay a patronage refund or interest rebate to borrowers, thus effectively reducing

to save regularly regardless of their financial standing. Savings are thus the very cornerstone of the Credit Union development in Alberta. There are two aspects of the

institutions. First, we encourage savings even [illegible] members able to save only small amounts [illegible] which [illegible] considerable savings have been accumulated by such [illegible] over [illegible] years. It is not unusual to [illegible] savings in no more than $[illegible] amounts, which other agencies [illegible] do not welcome. Second, we encourage and solicit savings [illegible] members even when they are [illegible] In this method we enable them to eventually get out of debt. We are proving [illegible] that [illegible] oneself out of debt, [illegible] the [illegible] of his debts [illegible] in [illegible] savings [illegible] as a sole [illegible] In [illegible] the habit of building up savings by small amounts over [illegible] time.

The purpose of savings [illegible] be [illegible] effective if there was no [illegible] Of course, the [illegible] credit [illegible] of interest for good reason. [illegible] percentage of our [illegible] at the end of [illegible] have taken to [illegible] members [illegible] taught them that shopping for cash will save them money. We have encouraged our members to [illegible] personal [illegible] from one source so that they control the amount of debt and the size of the monthly payments. Credit Unions in Alberta may not charge more than 1% on the unpaid balance, or [illegible] per annum simple interest. Many Credit Unions pay a patron

the interest rate. Loans are not discounted, nor are there "add-on" charges to disguise the true interest rate. Principal and interest payments are shown separately so that members will always know what they are paying for credit. It is our desire to teach all members the true cost of credit. We believe that Credit Unions are to be commended in this endeavour.

Insurance

13. Credit Unions have been very interested in providing security for all members. It is therefor logical that insurance protection is available. This insurance was developed over the years beginning in 1935. It took the form of insurance on loans and savings. We believe that "All debts should die with the debtor." We are confident that insurance protection has greatly influenced the growth of the Credit Union Movement in Alberta. These programs have been developed out of the willingness and desire of Credit Unions to provide protection for their members. Credit Unions have developed their own insurance company. This is Cuna Mutual Insurance Society, Inc. (Appendix XII - XIII).

Family Financial Counselling

14. One of the main reasons that people join a Credit Union is so that they can obtain advice on money management. Members feel that they can discuss their financial problems with Credit Union officers in the knowledge that the Credit Union will not take advantage of them. They realize that it is a non-profit organization interested in their welfare. Our Credit Committee and Treasurers have given a great deal of guidance to members with financial troubles. Because the demand for this service is increasing, the Credit Union Movement is rapidly developing training programs to teach advanced methods of counselling. It is now becoming one of the most important services offered

by the Credit Union Movement. (Appendix XIV).

Training in Democracy

15. Possibly, one of the most significant accomplishments of the Credit Union Movement has been to provide a training ground for lessons in co-operation and democracy. Many hundreds of Credit Union officers in Alberta spend many hours doing Credit Union work. This has taught them facts about business and the problems of guiding the operation of a growing organization. They have learnt the basics of the democratic way of life. We are sure that this has taught them to be better citizens and to appreciate the problems of our Society. In particular, they have learnt about consumer credit today.

History of Credit Union Development in Alberta.

16. The Alberta Credit Union Act was passed in 1938. Seven Credit Unions were chartered in that year. The attached statistics show the growth each year since 1938. (Appendix XV). The Annual Report of Alberta Credit Unions 1960, Pages 9 - 15 shows that among the first Credit Unions charter-ed every type is represented. (Appendix V11). We have today the same variety in classification, although the Credit Unions in the large urban centers have grown larger and have more members. This is undoubtedly due to the fact that, in the early days, chapters were formed in Calgary and Edmonton and the interchange of experience fostered the faster growth in these centers. In 1942, at a meeting in Red Deer, Credit Unions formed the Credit Union League. It was chartered in 1944. Today some 250 of the nearly 300 Credit Unions in Alberta are members of the League. In 1947, the Alberta Central Credit Union Ltd. was chartered. There are, today, some 270 Credit Unions holding membership in Central. Another mile-stone in the development of Alberta Credit Unions was the setting up of the Credit Union Stabilization Plan on January 1, 1959.

Value to Individual Members.

17. We attach samples of letters received from time to time at the League office. (Appendix XVII).

Evidence of Responibility Self-Discipline and Democracy In Credit Union Activities

18. Earlier in this Brief mention was made of the major part played by the individual member. This was particularly evident in the formative stages. This responsibility does not cease with the granting of the charter. The Credit Union Act requires that the general membership meets annually. These Annual Meetings are held during the months of January and February throughout Alberta. It is estimated that the average attendance at these meetings is about 25% of the membership. There are, nevertheless, numerous examples of attendance reaching three to four hundred persons and as high as 90% of the membership. It was also mentioned earlier that the individual Credit Unions learned long ago the value of unity of action and purpose. One example of the unity of purpose was the forming of the League. Through the League a number of group actions have been taken. Consistent representation to the Provincial Government on matters pertaining both to the Law and to conditions under which Credit Unions operate has been made. Another example of this close co-operation between the Credit Union Movement in Alberta and the Government is the suggestion made by the League that enabling legislation be brought in to make possible the operation of a "Stabilization Fund" in the Province. Further mention of this Fund will be made later in this Brief. For the moment, we wish to point out that the Government did, in fact, act upon this request by the League and brought in such legislation. There are many such examples of the initiative of the Movement and the co-operation of the Government of the Province. We

wish to publicly acknowledge our satisfaction with the status quo insofar as the operations of Credit Unions under the Laws in Alberta are concerned.

Importance of Stabilization

19. We believe that the Stabilization program is an outstanding example of the initiative and sense of responsibility of Credit Union leaders in Alberta. We wish only to emphasize here the desire of Credit Union people to set up and maintain the stability and good health of their own organizations and to make that desire a reality.

League Audit Services

20. The Credit Union Act, Section 67, (Appendix I A), requires that all Credit Unions with combined assets (shares and deposits) totalling more than $150, 000.00 shall be subject to an annual audit by Chartered Accountant. The Credit Union Movement through the League, has always been favorably inclined to this requirement. Several years ago the League sought to strengthen further this requirement by persuading a firm of Chartered Accountants to specialize in Credit Union audits. A brochure on this development is attached.(Appendix II B). We think that this is a further illustration of the intention of the Credit Union Movement to assume responsibility for its own welfare.

Development of Alberta Central Credit Union

21. Early in its existence, the Credit Union League of Alberta recognized the need for some kind of centralized agency to which the temporarily idle capital of Credit Unions could be channelled. It was intended from the beginning, and still is a practice, for the funds thus accumulated to be lent to other similar organizations when the need for extra funds arises. The Alberta Central Credit Union, Ltd. was organized in 1947 under the auspices of the League. A comprehensive decription of this Central Credit Union is contained in a brochure on Alberta Central Credit Union, Ltd. which is attached. (Appendix VI A - VI B).

wish to publicly [illegible]

state [illegible] as the operation of Credit Unions under the Laws in Alberta are concerned.

19. We believe that the Stabilization program is an [illegible] example of the initiative and sense of [illegible] Credit Union leaders in Alberta. [illegible] desire of Credit Union [illegible] the stability and growth [illegible] and make [illegible] credit.

20. The Credit Union Act, Section [illegible] (Appendix [illegible]) requires that all Credit Unions with [illegible] totalling more than $25,000 [illegible] an audit [illegible] Chartered Accountant. [illegible] through the League [illegible] this respect. [illegible] strengthen [illegible] by [illegible] Chartered Accountants to [illegible] A [illegible] this employment [illegible] (Appendix [illegible]). We think [illegible] the Credit Union [illegible] own service.

21. Early in its existence, the [illegible] recognized the need for some kind of central [illegible] which the resources [illegible] could be channelled. It was intended [illegible] practice. For the further [illegible] similar [illegible] The Alberta Central Credit Union, Ltd. [illegible] with the support of the League. [illegible] of this Central Credit [illegible] (Alberta Central Credit Union, Ltd. [illegible] VI [illegible] VI [illegible]

Stability History of Liquidations and Mergers

22. The Annual Report of Alberta Credit Unions shows that a total of 367 charters has been issued for Credit Unions from 1938 to December 31, 1960. (Appendix VII). During this period, there were 84 Credit Unions dissolved for a number of reasons among which were lack of interest, loss of bond of association and inefficient management. There are 12 Credit Unions listed as inactive in Alberta, all in the northern area. Five amalgamations have taken place, principally among community types. Seven Credit Unions are not reporting regularly to the Examinations Branch. It is interesting to note that, in the majority of cases, no losses were sustained by members, although in most cases a period of time has necessarily passed before all assets could be liquidated and shareholders paid out. The liquidation process has been speeded up since the advent of the Stabilization Plan. It is expected that all future dissolutions and inactive Credit Unions will have the attention of the Stabilization Fund. Four charters were registered in error and as a result have been cancelled. We have requested an up-to-date report on liquidations and will supply this at a later date.

Reserve Requirements Under the Credit Union Act

23. Reserves are required under the Credit Union Act. (Appendix I A). Section 67 of the Act provides that a system of annual audits must be performed either by the Examinations Branch or an approved auditor. One of the aspects of these audits is the determination that adequate reserves are being maintained.

Guaranty Fund

24. Section 41, Sub-Sections 1, 2, 3, of the Credit Union Act, (Appendix I A), sets out that each Credit Union must reserve, annually, a sum equal to 20% of its Net Earnings before dividend distribution. Under Sub-Section 4 of Section 41, 25% of the sum so allocated must be invested in the League Stabilization Fund. It is to be noted that only Credit Unions holding League membership are required to participate in this Fund. (Appendix

II A). The monies retained by each Credit Union are designated as the "Guaranty Fund." In addition to the 20% of net profits, all fines and fees must also be transfered to the Guaranty Fund. At the end of 1960, the Guaranty Funds of all Credit Unions in Alberta amounted to $900,262.00 net, or 3.5% of total shares and deposits and 4.08% of total loans. (Appendix VIII).

Use of the Guaranty Fund

25. The Guaranty Fund is used primarily for the write-off of uncollectable loans. The Annual Report of Alberta Credit Unions for 1960, Page 4, Appendix VII, shows a total of $134,432.00 in loans have been written off since 1938. This amounts to .109% of total loans made during that period. We therefore feel that the present total of $900,262.00 in the Guaranty Fund is ample for the purpose. The Guaranty Fund is being increased each year in keeping wih the increase in loans. It is thus felt that a large portion of the Guaranty Fund is available as a reserve in the event that liquidation of a Credit Union becomes necessary.

Investment of the Guaranty Fund

26. Under Section 42, Sub-Sections (a), (b) of the Credit Union Act and Article XII of the Standard By-Laws, the monies set up in the Guaranty Fund must be invested either as paid-up shares in other Credit Unions, approved for that purpose, or in investments authorized by Section 3 of the Trustee Act. (Appendix I A, B). Earnings from these investments are added to the Credit Union's annual income and are thus subject to the 20% retention as set out above. The necessity for actual investment of the Fund together with the restrictions as to investment insures the availability to the Credit Union in emergencies.

Investments Generally

27. The Consolidated Balance Sheet for December 31, 1960 shows a total investment for Alberta Credit Unions of $4,000,282.00. (Appendix IX). This is equal to 15.5% of total shares and

deposits and 17.96% of loans. (Appendix VIII). In view of the fact that the Credit Union Act requires that a Credit Union need not reserve beyond 10% of its total shares and deposits, we feel that adequate reserves are maintained for all normal requirements. In addition to investments we draw your attention to the Cash holdings of $1,824,917.00 as shown on the Consolidated Balance Sheet. This is actually a substantial liquid reserve that has proven to be adequate.

Bonding

28. The Standard By-Laws, Article XIII, Sections 1, 2, 3, requires that each Credit Union must bond its officers for a minimum amount on a schedule of 10% to 15% of total assets. (Appendix I B). The majority of Credit Unions carry the 576 Blanket Bond. (Appendix X). This bond has been developed by the Credit Union National Association and is underwritten by Employer's Mutual of Wisconsin. It is designed to give maximum coverage to Credit Unions on all losses caused by internal operation. No figures are available to indicate the total coverage carried by Alberta Credit Unions but we feel, and have every reason to believe, that this is adequate. Once more, the annual audit checks on bonding as required.

Stabilization Fund

29. In 1957, the League drew up and approved through its membership a Credit Union Mutual Aid Fund or Plan. It was intended that the approved clauses would be incorporated into the Credit Union Act. The Minister of the Department of Industry and Development was unable to support the program because he felt that it should not be compulsory upon all Alberta Credit Unions. Subsequently, in 1959, a proposal to incorporate the plan into the League Constitution was presented and approved. The Minister agreed to the new plan, and caused enabling clauses to be added to the Credit Union Act. These are set out in Section 41, Sub-Section 4, and Section 79, Sub-Section 3. (Appendix I A).

Description of the Stabilization Plan

30. Regulations governing the operation of the Stabilization Fund form Part IV, Articles XXVIII to XXXII of the League Constitution. (Appendix II A). These initially provided for a fund of $100,000.00 to be established. This was raised to $200,000.00 by resolution of the League membership in 1961. The Fund is raised by investment, annually, of 5% of each Credit Union's net income before dividends. The Fund is presently pegged at $200,000.00. When this total is reached, investments will continue but the excess amount will be returned to the member Credit Unions pro rata of their first and each succeeding year's investment in the Fund. Earnings from investment of the Fund accrue to the Fund and are used to defray expenses and to recoup any losses sustained in stabilizations or liquidations of Credit Unions. Participation is compulsory upon League membership. Non-League Credit Union may participate and once having participated may not withdraw except upon consent of the Minister. In practice, the Fund is available to all Credit Unions in Alberta since it is felt that whatever affects one Credit Union affects all. However, it is provided that, where assistance is given, the Credit Union must begin participation except in cases of liquidation.

Operation of Stabilization Fund

31. The Stabilization Fund is administered by a Board of Trustees consisting of five in number. Three Trustees are appointed by the League, one is appointed by Alberta Central Credit Union, Ltd. and one is appointed by the Supervisor of Credit Unions, (usually himself). The Board has the responsibility for the administration and for decisions on stabilizations. In practice, the accountant hired by the Board carries out orders and decisions made by the Trustees.

History of

32. The Stabilization Fund gives four kinds of assistance. These are liquidations, amalgamations, revivals and stabilization.

1. Regulations governing the operation of the Stabilization Fund form Part IV, Articles XVIII to XXV of the League [illegible] stitution. (Appendix II A). These [illegible] provided for a [illegible] of $100,000 [illegible] be established. This was raised to $200,000 [illegible] by resolution of the League [illegible] The Fund is raised by investment, annually, of 5% of each Credit Union's net income [illegible] dividends. The Fund is presently [illegible] $200,000.00. When this total is reached, investments will [illegible] [illegible] but the excess earned will be returned to the member Credit Unions [illegible] of their first [illegible] succeeding [illegible] investment in the Fund. [illegible] of the Fund [illegible] [illegible] of the Fund [illegible] expenses [illegible] any losses sustained in stabilization or liquidation of Credit Unions. Participation is compulsory [illegible] Non-League Credit Union may participate [illegible]

In practice, the Fund is [illegible] Credit Unions [illegible] since it is felt that whatever affects one Credit Union affects all. However, it is provided that, before assistance is given, the Credit Union must begin participation except [illegible] tion.

2. The Stabilization Fund is administered by a Board of Trustees consisting of five members. Three Trustees are appointed by the League, one is appointed by Alberta Central Credit Union Ltd., and one is appointed by the Supervisor of Credit Unions, (usually [illegible]). The Board has the responsibility for the administration and for decisions on assistance. In [illegible] the recommendation of the Board carries out orders and

The Stabilization Fund gives four kinds of assistance. These are [illegible], emergency [illegible] revivals and stabilization.

Stabilization

It does not under-write poor administration nor does it supplant the services of Alberta Central Credit Union Ltd. To this date, the Fund has assisted in six liquidations or dissolutions. In each of these the Fund has purchased the assets of the Credit Union and provided sufficient funds to pay all shareholders in full. The loans in force are being collected by the Board until paid in full. One amalgamation has been carried out. The Fund purchased all loans where membership was not transfered to the new organization and in addition made a grant to cover any impairment of share holdings in the new organization. A revival is being carried out in another Credit Union through the making of an interest free loan intended to offset any uncollectable loans and to provide for immediate share withdrawals. One stabilization has been made where the Credit Union suffered a loss through a defalcation not covered by the Bond. In each of these, the Stabilization Fund will be repaid, in due course, for the monies advanced. Write-offs will occur where loans purchased prove uncollectable.

Future of Stabilization Fund

33. With the pegging of the Stabilization Fund at $200, 000.00, the revolving feature on investments in the Fund will likely commence in 1963. It is thought that the amount of $200, 000.00 will be ample for any foreseen emergency that might arise. However, very close watch is being maintained by the League upon conditions. It may become necessary to raise the Fund limits again before 1963. It is thought that, because of the exposure to losses, that a system of audits should be carried on by the League itself to determine and to insure that all member Credit Unions are operating according to good practices.

Dividends and Interest Rebates

34. It is provided by the Credit Union Act, Section 46 and the Standard By-Laws, Article V, Section 4, that where loans are delinquent in excess of 40% of their total, no dividend on behalf

of shares nor interest rebate on behalf of loans shall be paid, except with the written consent of the Supervisor. (Appendix I B). These monies are then retained against possible excessive write-offs. Section 45, Sub-Section 1, (a) (Appendix I A) provides also for the determination of the amount of dividend by the Board of Directors, except that the members may, by a two-thirds majority vote in Annual Meeting, reduce the amount to be paid. It is also provided that undistributed funds will remain in undivided earnings until the end of the year. Undivided earnings thus constitute a small reserve. It is noted that seldom are the undivided earnings nor the declared dividend altered by the membership. Rebates of interest paid by borrowers of from 10% to 25% is sometimes made. This allows for the prevention of payment of excessive dividends when volume of business or subsidized operations occur.

Interest Accrual

35. Credit Unions loan money at interest rates based on the unpaid monthly balances. Thus at any given time during the year, there is a large sum unpaid for interest. It is not the practice to accrue this at the year end. We may then consider this unaccrued interest to be a further reserve against future losses.

Liquidity Legal Requirements

36. The Standard By-Laws, Article XII, Sections 6, (1), (2) provide that a reserve in cash or readily convertable investments equal to 5% of share capital and 10% of deposits must be separately maintained. The Article further provides that, where a Credit Union is operating a chequing service, the reserve on deposit accounts must be equal to 25% of such deposits. (Appendix I B).

Share Withdrawals

37. Article II, Section 4 of the Standard By-Laws provides for withdrawal of shares on any business day. (Appendix I B). However, the Directors may require notice of 90 days of intention to do so. The Supervisor may extend this period. It

of shares nor a lien [illegible] on account of loans shall be paid, except with the written consent of the Supervisor [illegible]. (Appendix [illegible]). These [illegible] provisions [illegible] against possible [illegible] the [illegible]. Section [illegible], [illegible]-Section 1 (b) [illegible] provides also for the [illegible] of the [illegible] by the [illegible] of Directors, except [illegible] the [illegible] may, by a two-thirds majority vote in Annual Meeting, reduce the amount to be paid. [illegible] is [illegible] that [illegible] will remain in undivided earnings until the end of the year. Undivided earnings thus constitute a small reserve [illegible] that [illegible] the [illegible] are [illegible] rates of interest paid [illegible] rate of from [illegible] to [illegible] is sometimes made. [illegible] the prevention of payment of interest [illegible] when volume of business [illegible] operations occur.

[illegible] Credit Unions loan money at interest rates [illegible] months [illegible]. [illegible] at any given time during the year, there is a [illegible] for interest. [illegible] to accrue [illegible] the year [illegible]. We may [illegible] accrued interest to be [illegible] reserve [illegible].

36. The Standard By-Laws, Article III, Sections [illegible], [illegible], [illegible] provide that reserve in cash or readily convertible [illegible] must equal [illegible] of [illegible] and [illegible] of deposits [illegible] separately maintained. The [illegible] that [illegible] a Credit Union is operating a [illegible] service, the [illegible] deposit accounts must be equal to [illegible] of such deposits. (Appendix [illegible]).

37. Article II, Section [illegible] of the Standard By-Laws provides [illegible] withdrawal of shares on any business day. [illegible] However, the Directors may require notice of [illegible] intention to [illegible]. The Supervisor may extend this [illegible].

is very rare that such notice is required and it may be safely stated that all Credit Unions are able to meet normal share withdrawals, as they occur.

Deposit Withdrawals

38. Article III, Section 2 of the the Standard By-Laws allows for deposits to be withdrawn on any business day. The Directors may require 30 days notice of such intention to withdraw such funds and a further extension may be allowed by the Supervisor. Credit Unions which operate such accounts allow such withdrawals as requested. (Appendix I B).

Levels of Liquidity

39. Although the Credit Union Act requires that 5% of shares and from 10% to 25% of deposits be supported by liquid assets, in practice Alberta Credit Unions maintain higher levels. The Analysis of Credit Union Reserves, (Appendix VIII) shows that Cash reserves for total deposits and shares stand at 7.1% and of assets at 6.37%. Investments stand at 15.5% of deposits and shares and 13.7% of assets. Combined cash and investments are 22.6% of deposits and shares and 19.9% of total assets. We think this is adequate for all normal requirements, since these refer to liquid assets only. A sampling of 30 Credit Unions in all ranges of assets in which liquid and other investments are included shows reserves to be slightly higher. (Appendix XI A-B-C-D).

Loan Repayment Rates

40. The Analysis of Credit Union Reserves (Appendix XI A-B-C-D) shows a daily repayment rate on loans to vary from .26% to .40% of loan totals. Average terms of loans is from 1 to 1 1/2 years, while average loan totals are from $491.00 for low asset Credit Unions to $1,049. for higher asset groups. This indicates a high rate of loan repayments together with short terms. This insures a high liquidity standard for Alberta Credit Unions and good loan turn-over.

41. The Credit Union Act, Section 39 (Appendix I A) allows,

Place of Alberta Central Credit Union in Liquidity

subject to the consent of the Supervisor, for a Credit Union to borrow up to 25% of its assets on a three-fourths vote of its Directors. It is further provided that 50% of assets can be borrowed with the consent of three-fourths of the members present in annual or special meetings. The Credit Union Act, Section 39, also further provides for a Credit Union to borrow up to the total of its capital investments in excess of its statutory reserves without the consent of the Supervisor. In practice, Credit Unions borrow funds from Alberta Central Credit Union Ltd. during certain seasons, usually the spring. Such borrowings are usually of less than one year's duration and are repaid by the year end. This factor does, however, add greatly to the liquidity of Alberta Credit Unions during times when loan demands or share withdrawals exceed the normal savings.

Loan Practices

42. Alberta Credit Unions have, in the main, restricted their lending to the Personal Loan field. Credit Union members have been encouraged to borrow money for the purchase of furniture, cars, household appliances, and for vacations, medical bills and the consolidation of existing debts. These loans are made for periods not exceeding 24 months. A trend is developing for longer terms, but as yet, Credit Union loans have not been extended beyond 36 months. The average outstanding loan balance of our members has steadily increased. This has resulted from the channelling of more of the credit needs into the one source Most of these loans are secured by Chattel Mortgage or Co-signor where they exceed $400.00. During the past few years, Credit Unions have been called upon to make Second Mortgage Loans. These are increasing in number. This has occured because many other financial institutions are discounting such loans, or charging high rates of interest. We attach a Credit Committee Report that shows the usual reasons members have for borrowing. (Appendix XVI).

subject to the consent of the supervisor, for a Credit Union to borrow up to 75% of its assets on a three-fourths vote of its Directors. It is further provided that 50% of assets can be borrowed with the consent of three-fourths of the members present in annual or special meetings. The Credit Union Act, Section 39, also further provides for a Credit Union to borrow up to the total of its capital investments in excess of its statutory reserves without the consent of the Supervisor. In practice, Credit Unions borrow funds from Alberta Central Credit Union Ltd. during certain seasons, usually the spring. Such borrowings are usually of less than one year's duration and are repaid by the year end. This factor does, however, add greatly to the liquidity of Alberta Credit Unions during times when loan demand or where withdrawals exceed the normal savings.

Practices

11. Alberta Credit Unions have, in the main, restricted their lending to the Personal Loan field. Credit Union members have been encouraged to borrow money for the purchase of furniture, cars, household appliances, and for vacations, medical bills and the consolidation of existing debts. These loans are made for periods not exceeding 24 months. A trend is developing for longer terms, but as yet, Credit Union loans have not been extended beyond 36 months. The average outstanding loan balance of our members has steadily increased. This has resulted from the channelling of more of the credit needs into the union. Most of these loans are secured by Chattel Mortgage or Co-signers where they exceed $400.00. During the past few years, Credit Unions have been called upon to make Second Mortgage Loans. These are increasing in number. This has occurred because other financial institutions are discounting such loans, or charge high rates of interest. We attach a Credit Committee Report which shows the usual reasons members have for borrowing. (Appendix XVII).

Conclusion

43. Growth has brought many problems to Credit Union that were not anticipated by the early organizers and founders. Study of these problems is being carried on by the Leagues and the Credit Union National Association. Competent instruction is sought by managers and officers in the investment field, the managing of credit, administration and human relations. In Alberta, the League is conducting a planned education program for Credit Union Officers, managers and members, which will, it is hoped, improve the efficiency of operations. We are aware that the Credit Union Movement is growing rapidly, but we are confident of the ability of people to control and develop this Movement as a useful and beneficial part of our society. We believe that Credit Unions should be organized among all persons eligible for membership. We feel that the Credit Union Movement has had a marked effect for good upon the economy of the Province of Alberta and that this will continue and increase. We are of the opinion that Alberta Credit Unions should continue to be governed by Provincial Legislation. This, we feel, will simplify operations and provide for changes as progress dictates to better serve the people. We think that one source of authority is preferable. We also point out that conditions vary from province to province, and, because of this, more flexibility is necessary for efficient operations in each area. The Credit Union Movement is of the people and must be geared to their needs and no control that tends to detract from this is to be contemplated.

INDEX OF APPENDICES

Royal Commission on Banking and Finance

Hearings held at

Edmonton

Vol. 6

Date. March 20, 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Edmonton,
Alberta, on Tuesday,
March 20, 1962

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W Thomas Brown, M B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Edmonton, Alberta
Tuesday, 20th March, 1962

THE CHAIRMAN: The Farmers' Union of Alberta. Mr. Harper, I understand that you wish to make a submission. We have received your written submission and perhaps you would like to address the Commission. Then we would be very pleased to discuss the various items that have been mentioned and to ask a few questions.

SUBMISSION OF THE FARMERS' UNION OF ALBERTA

Appearances:

W.J. Harper

MR. HARPER: Submission to the Royal Commissioner on Banking and Finance.

This submission is presented by the Farmers' Union of Alberta, on behalf of the 25,000 farmers of this province who are members of our organization. While this organization is dedicated to the preservation of the family farm, we fully recognize that the meaning of this term is changing drastically. The family farm which existed on the prairies 30 years ago was largely a self-supporting unit. Horses were the motive power. Replacements were

raised on the farm, and the necessary feed crops were also produced there. Much of the family food supply also was grown at home. Machines were fewer, simpler, and less expensive than is the case today.

The family farm is now much larger and is conducted as a modern business. There is a chronic and serious shortage of competent farm labour, arising primarily from the fact that the low farm prices and limited sales of the past 10 years have made it financially impossible for the farmer to compete for labour against the booming economy of the rest of Canadian industry. Over the past 10 years the 15 per cent of Canadians engaged in agriculture have received approximately 7 per cent of the national income.

Under these circumstances an adequate source of financing is imperative if agriculture is to continue to function efficiently. Today the farmer must buy his power units, instead of raising them. He must buy the feed for these units, instead of growing it. He must buy many more, and much more expensive, machines to compensate for lack of labour. He now buys supplementary livestock feeds, chemical weed and insect sprays, and many items which were formerly unknown. These products are essential in today's highly competitive agriculture, but they require a continuous and readily available source of cash or credit.

Farming, particularly the family farm, is perhaps the only form of business which requires that

the entire plant be bought and paid for by each succeeding generation. When a farmer retires, he usually needs to "cash out" his holdings in order to live in reasonable comfort through his old age. The young farmer who takes over their plant is therefore faced with the problem of obtaining long-term credit with which to purchase. The vagaries of weather, natural hazards, and farm prices also make it imperative that interest rates on such a loan be low, and that repayment terms be reasonably elastic in order that unavoidable crop losses can be borne.

We respectfully suggest, therefore, that any financial programme for Canada needs to incorporate adequate provisions for farm financing, including: (a) long term, low interest loans; (b) loans large enough to purchase and equip an economic farm unit (at present such a unit would be valued at $25,000 as a general average); (c) some form of protection (insurance, risk sharing, etc.) to compensate for unavoidable crop losses.

The development of farmer-owned co-operative marketing and supply agencies has proven of inestimable value to prairie farmers. We believe in the soundness of such self-help programmes, and suggest that our farmers can, through co-operative action, solve their financing problems to a considerable degree. We are referring to the extension of the Credit Union movement, which is a powerful self-help factor in many parts of the world. Credit Unions are becoming well established in many rural areas

the entire plant be bought and paid for by each succeeding generation. When a farmer retires, he usually needs to "cash out" his holdings in order to live in reasonable comfort through his old age. The young farmer who takes over their plant is therefore faced with the problem of obtaining long-term credit with which to purchase. The vagaries of weather, natural hazards, and farm prices also make it imperative that interest rates on such a loan be low, and that repayment terms be reasonably elastic in order that unavoidable crop losses can be borne.

We respectfully suggest, therefore, that any financial programme for Canada needs to incorporate adequate provisions for farm financing, including: (a) long term, low interest loans; (b) loans large enough to purchase and equip an economic farm unit (at present such a unit would be valued at $25,000 as a general average); (c) some form of protection (insurance, risk sharing, etc.) to compensate for unavoidable crop losses.

The development of farmer-owned co-operative marketing and supply agencies has proven of inestimable value to prairie farmers. We believe in the soundness of such self-help programmes, and suggest that our farmers can, through co-operative action, solve their financing problems to a considerable degree. We are referring to the extension of the Credit Union movement, which is a powerful self-help factor in many parts of the world. Credit Unions are becoming well established in many rural areas

across the prairies. We suggest that the Commission give favourable consideration to the development of this movement. Some of the factors which need further study are: (a) the improvement of existing legislation to enable Credit Unions to fully serve their members; (b) consideration of the need for a co-operative bank, or alternately, of the extension to Credit Unions, of more of the privileges enjoyed by banks under the Bank Act.

We believe that our farmers would make extensive use of Credit Unions, knowing, as they do, the power of co-operative action in other fields. However, Credit Unions must be provided with a favourable legislative climate in which to develop.

To a very large extent the Bank of Canada came into being through strong farm pressure, maintained since the early 1920's. We believe that the purpose of the Bank of Canada should be to adequately serve the people of Canada -- to provide all Canadians, in so far as possible,with credit which they need for productive purposes and the use of which will add to the general economy and well-being of Canada. Agriculture must be given its full share of this productive credit. Our farms are an essential part of our economy. They must be provided with the finances to keep them in efficient production. Otherwise all Canadians will have to bear the burden of an unefficient agriculture, which could prove most costly through increased consumer prices. It may very well be much less costly to provide the

farmers of Canada with the capital necessary to maintain and increase their efficiency.

THE CHAIRMAN: Questions?

COMMISSIONER HARROLD: Mr. Chairman, in your second paragraph, Mr. Harper, you refer to limited sales. What did you have in mind on limited sales there?

MR. HARPER: I was thinking, sir, mainly of the sales of wheat and grain under the quota system.

COMMISSIONER HARROLD: Other than that the sales were not limited?

MR. HARPER: Other than that the sales were not particularly limited but grain being such a major part of our farm economy of course this was a serious factor.

COMMISSIONER LEMAN: Mr. Harper, what was the source of your statistics where you said that over the past 10 years 15 per cent of the Canadians engaged in agriculture received only 7 per cent of the national income?

MR. HARPER: These figures, sir, have been submitted on a number of occasions by various farm organizations. I believe they originated through the Canadian Federation of Agriculture if I am not mistaken, and might I say from some of my own examination of the Dominion Bureau of Statistics figures these are approximately correct. You can vary it 1 per cent or 2 per cent according to the exact manner in which you would estimate the figure.

COMMISSIONER LEMAN: The farm people have received about half of the average?

MR. HARPER: About half of the average.

COMMISSIONER LEMAN: That is cash income you are referring to?

MR. HARPER: Yes.

COMMISSIONER GIBSON: Mr. Harper, would you care to say a little about how your members find the present sources of finance? As I understand it there are sources of long-term funds through both the provincial government of Alberta and the federal government. There are many other sources including the Farm Improvement Loan Act, the Farmers' Assistance Act, etc. Would you say a word or two on how you find these sources and where the inadequacies are because our interest is to find out how the system is working and whether it can be improved?

MR. HARPER: Well, one of the difficulties, sir, I think is, as I have intimated here, in order to get an economic farming unit today it has to be a fairly large unit. I think certainly on a usual average $50,000 is pretty close to what is necessary and there are no sources of funds through the Farm Loans Board and the provincial Act which comes anywhere near that figure.

COMMISSIONER GIBSON: It goes up to $30,000, doesn't it?

MR. HARPER: Yes, up to $30,000 and what can happen there is a farmer accepts this $30,000 loan and then he requires another $10,000, $15,000 or

$20,000 to get up to a fair average limit. After he gets into that he may find himself getting into debt for machinery and other debts which he finds it pretty difficult to carry and this $30,000 basic debt underneath him. If he could get the whole thing consolidated into one fund he could carry it much more easily at a lesser interest rate than he can through buying machinery or other things. The other alternative is he may try to struggle on with that $30,000 unit which is not an economic and effective unit.

COMMISSIONER GIBSON: Would not the matter of his credit be up to the seller?

MR. HARPER: Well, it is a good suggestion but the seller does not work that way. It might be he is buying from an older man who is going out of business and wants his cash.

COMMISSIONER GIBSON: How much land would you assume in this $50,000 unit?

MR. HARPER: That is extremely difficult depending on the type of farm. If you are going down into the southern part of the province which is a grain area and the yield not too high you would require a section or more or possibly two sections to make it an effective unit. You get into this part of the country you could probably do with half a section depending on what you are doing, whether dairy, hog farming, grain farming. I do not think there is an average on that because agriculture varies even in this section.

$20,000 to get up to a fair average limit. After he gets into that he may find himself getting into debt for machinery and other debts which he finds it pretty difficult to carry and this $20,000 basic debt underneath him. If he could get the whole thing consolidated into one fund he could carry it much more easily at a lesser interest rate than he can through buying machinery or other things. The other alternative is he may try to struggle on with that $30,000 unit which is not an economic and effective unit.

COMMISSIONER GIBSON: Would not the rate of his credit be up to the seller?

MR. HARPER: Well, it is a good suggestion but the seller does not work that way. It might be he is buying from an older man who is going out of business and wants his cash.

COMMISSIONER GIBSON: How much land would you assume in this $30,000 unit?

MR. HARPER: [illegible]

depending on the type of farm. If you are going down into the southern part of the province which is a grain area and the yield not too high you would require a section or more or possibly two sections to make it an effective unit. You get into this part of the country you could probably do with half a section depending on what you are doing, whether dairy, hog farming, grain farming. I do not think

COMMISSIONER GIBSON: A grain unit would be a section?

MR. HARPER: That would be the absolute minimum I think they would have.

COMMISSIONER GIBSON: Could you say something about the short-term methods of financing?

MR. HARPER: I think they are reasonably adequate except, of course, we are always concerned with the rate of interest which is necessary to pay under this method. A crop loss can be a very serious thing if one has intermediate credit and then he loses his credit through a hail storm or frost, how is he going pay that. These are the things which create quite a serious problem.

THE CHAIRMAN: Why do people pay such a high price for a farm if it is not economic to do so?

MR. HARPER: That is a very interesting question, sir. You will find in many instances they are buying more than land; they are buying a reduced overhead frequently. A farmer in order to get his work done and to compensate for the lack of effective farm labour has to go into big machinery, very costly machinery. Once you have taken the plunge and gone into big tractors, big combines and so on the matter of another quarter section of land to the farmer does not mean very much in terms of time. This big unit will go over it very quickly and therefore it is not at all uncommon for a farmer to find when he buys this extra piece of land in terms of his increased production he is also paying

reduced overhead.

THE CHAIRMAN: You are talking now about buying additional land? But why would he get into it in the first place if it costs so much? If he would only make the income of half of Canada's average for the capital cost that he was faced with why does he go into it?

MR. HARPER: Why does he go into more expensive machinery?

THE CHAIRMAN: Why does he buy a farm at all? We are talking about a farmer but a farmer, I do not suppose, is able to farm unless he has a farm. Why does he go into it if he is faced with a high cost? That is something that has always occurred to me. Why do people have this great desire to farm even at a price which is very hard to carry?

MR. HARPER: If a man is a farmer, sir, and has been a farmer all his life he thinks in terms of farming.

THE CHAIRMAN: But if he has been a farmer all his life he must have a farm and he must have bought it some years ago.

MR. HARPER: Yes, but what I am pointing out in the brief here is that our farms are steadily increasing in size. We are losing approximately 5½ per cent of our farmers every year. These small marginal men are being pushed out. They simply cannot survive and as a result of this the fellow who is still in the business has a tendency to pick up this other land in many cases as a means

eased overhead.

THE CHAIRMAN: You are talking now about buying additional land? But why would he get into it in the first place if it costs so much? If he would only make the income of half of Canada's average for the capital cost that he was faced with why does he go into it?

MR. HARPER: Why does he go into more expensive machinery?

THE CHAIRMAN: Why does he buy a farm at all? We are talking about a farmer but a farmer. I do not suppose, is able to farm unless he has a farm. Why does he go into it if he is faced with a high cost? That is something that has always occurred to me. Why do people have this great desire to farm even at a price which is very hard to carry?

MR. HARPER: If a man is a farmer, sir. and has been a farmer all his life he thinks in terms of farming.

THE CHAIRMAN: But if he has been a farmer all his life he must have a farm and he must have bought it some years ago.

MR. HARPER: Yes, but what I am pointing out in the brief here is that our farms are steadily increasing in size. We are losing approximately 5% per cent of our farmers every year. These small marginal men are being pushed out. They simply cannot survive and as a result of this the fellow who is still in th

of reducing his overhead and after all he is a farmer, this is what he wanted to do, this is his business. That is the way he likes to make his livelihood. It is the same reason as we have ourselves for being in the business we are in. It is work we like and we want to carry on with it. Fortunately for Canada because we would be in a pretty bad spot if this were not so.

THE CHAIRMAN: Yes, but I was wondering how these farm prices have risen to such a high point where, according to figures you have given us, it appears to be leaving a very narrow margin and very great possibility of loss?

MR. HARPER: One of the interesting things is that in some work done in Manitoba a few years ago it was found there are very few new farmers going into the business. Most of the farm purchases are by men who have been running farms or men who are already operating in the district buying a half section or quarter section more.

THE CHAIRMAN: Even so, how is it that the seller is able to get such a high price? No matter what farmer buys that additional land, if the price is too high it will not be worth his while.

MR. HARPER: It is just a case of this, sir: As I said, there are very few new farmers going into the game. They simply could not afford to pay the high price and live on it too. But, the man who has a unit paid for and has been farming all his life, to him, to buy another quarter section,

it means he doesn't have to live off the product of that quarter section. He can probably finance it as an adjunct to his already operating unit, and in so doing increase his production and reduce his overhead.

THE CHAIRMAN: Well then, he does not lose as a result?

MR. HARPER: No, over a period of time this may work out all right for him.

COMMISSIONER GIBSON: He is not the man who needs the $50,000 loan?

MR. HARPER: No.

THE CHAIRMAN: The man who needs the $50,000 loan is the man who would not otherwise buy a farm at all, because he could not?

MR. HARPER: The man who requires the $50,000 loan is the man we are worried about: He is the young farmer: And, farming today is not just a simple proposition, as the Commission well knows. It requires a very great deal of skill and training and experience, and we are losing these young men who have this because they are afraid to go into the business of farming and take on an enormous debt at probably pretty high interest rates. The result is the young farmers are moving into the city and getting a job and borrowing for a house under N.H.A. and carrying it quite easily. They can do that, but they cannot get as effective financing for the purchase of a farm. It is an extremely risky business for a young man today.

COMMISSIONER BROWN: And is the result that the farm land is being left?

MR. HARPER: No, the result is they are being picked up by some other man in the business who operates it along with his big machinery at comparatively small extra cost.

COMMISSIONER BROWN: The farm production is not suffering?

MR. HARPER: No, but it is getting into fewer and fewer hands.

COMMISSIONER BROWN: How many farmers are there now?

MR. HARPER: In Alberta in the neighbourhood of 70,000. I believe the provincial government estimate is about 70,000 or 75,000, but this includes a great many small farms. 70,000 would be fairly effective units. We did have just over 100,000 12 years ago, so you can see the rate of change.

COMMISSIONER GIBSON: What would the average size farm be in Alberta?

MR. HARPER: I think it is somewhere around 350 acres or something of that sort, but this again does not mean very much, as I have pointed out previously.

THE CHAIRMAN: Well, I suppose it could not be much less than that, could it?

MR. HARPER: No.

THE CHAIRMAN: Unless it were a chicken farm, or something of that kind.

MR. HARPER: That is right.

THE CHAIRMAN: With a grain farm it would have to be at least 350, wouldn't it?

MR. HARPER: Oh, yes; you would have a pretty tough time getting by on less than that. In fact, that is too small for a grain farm. You can't carry the overhead of the machinery.

COMMISSIONER BROWN: The effect of carrying charges and everything is a part of the cost, therefore if a man buys a farm only on the basis of being able to pay for it, including his carrying charges and everything, and if interest rates were lower, wouldn't the prices go up to compensate for it, so the annual carrying cost would be the same, and the thing would be that the farmer would be selling out?

MR. HARPER: It is possible, sir. This is the way finances work. It could well be.

COMMISSIONER BROWN: The person gaining would be the seller and not the buyer?

MR. HARPER: This is possible.

COMMISSIONER LEMAN: Would the alternative way of meeting this problem -- I am thinking of some places in the east where farms are relatively small, and they have used the co-op system to finance machinery with the thought that you cannot keep machinery busy all the time on too small a unit?

MR. HARPER: Yes.

COMMISSIONER LEMAN: So they get together

and they rent and use it by the day. Could there be a form of organization that would go in there and bring the combines onto the man's land when it is needed, and serve, say, 10 or 12 farms around on a co-operative basis?

MR. HARPER: Yes.

COMMISSIONER LEMAN: Is that done at all?

MR. HARPER: Yes, there are two or three plans that are being used to a degree. They are all rather experimental at the moment. One of them is that the farm machinery is simply kept by the machinery company and rented to the farmer when he needs it. So far the rental rates seem rather high, but possibly this is one answer.

Another one is that, of course, some individual may own the whole line of machinery and you simply hire him to do your farm work. This has been tried but it has not been worked out too well.

The third method which is used fairly extensively in Saskatchewan is the setting up of a farm machinery co-operative by a group of farmers, such a father and two sons, or brothers, where they actually form a company. I believe there is legislation in that province under which this can be administered. They buy the machinery and operate it as a company, charging the full rate to each individual for the use of it, and it is a co-operative and any returns are pro-rated back at the end of the season.

Following that further along, there are a few farms in Saskatchewan, one of them the Matador Farm, which is a straight co-operative all the way through. All the operation is carried on as a single unit. It was necessary they purchase their land individually, but they really don't know quite where the boundaries are. They operate these big fields just as a company; they buy their machinery co-operatively, and they have a management committee amongst themselves which operates the whole unit, and it is a co-operative setup -- a co-operative productive farm.

So far as the Farmers' Union is concerned, we believe in this way lie a number of answers to the farmers' problem. It is purely a matter of getting the farmers to accept, recognize and go along with this idea.

COMMISSIONER LEMAN: Because a combine will handle a lot more than one farm if it is properly used, won't it?

MR. HARPER: A large combine will cover a large acreage. However, you can get into serious difficulty here. We live in a fairly northerly climate, and by the time harvest time comes we are getting pretty close to winter, and you may lose almost the value of one combine by not being able to take the crop off.

THE CHAIRMAN: I suppose it has to be done in a matter of a few days?

MR. HARPER: That is correct, and if you

get a snow-storm on top of a ripe crop, you may have lost your one year's operation, or practically so. This is one of the tremendous risks inherent in farming to which I have referred here, which makes it imperative that the operating of the farm be as elastic as possible.

COMMISSIONER LEMAN: Yes, but a combine used on a unit of 500 acres works how many days in a season?

MR. HARPER: It would probably take a crop off in five or six days, depending upon the weather. Sometimes you can run most of the night, and sometimes you don't get started until 11 o'clock if it is damp, and you have to quit as soon as the sun goes down at 5 o'clock. These are the unknowns. Of course, there are varying sizes of combines: A small one for a small farm and a large one for a large farm.

COMMISSIONER MACKINTOSH: Later in your brief you refer to the credit unions and you mention the need for improvement of existing legislation to enable credit unions to serve their members fully.

MR. HARPER: Yes.

COMMISSIONER MACKINTOSH: We have had, I think, three if not more, briefs from the credit unions, and my recollection is that all of them said their legislation was quite adequate and had no suggestions to make for improving it. I think my fellow Commissioners would bear that out. We gave them lots of opportunity and encouraged them

get a snow-storm on top of a ripe crop, you may have lost your one year's operation, or practically so. This is one of the tremendous risks inherent in farming to which I have referred here, which makes it imperative that the operating of the farm be as elastic as possible.

COMMISSIONER LEMAN: Yes but a combine used on a unit of 500 acres works how many days in a [illegible]

MR. HARPER: It would probably take a crop off in five or six days, depending upon the weather. Sometimes you can run most of the night, and sometimes you don't get started until 11 o'clock if it is damp, and you have to quit as soon as the sun goes down at 5 o'clock. Those are the unknowns. Of course, there are varying sizes of combines: A small one for a small farm and a large one for a large farm.

COMMISSIONER MACKINTOSH: Later in your brief you refer to the credit unions and you mention the need for improvement of existing legislation to enable credit unions to serve their members fully.

MR. HARPER: Yes.

COMMISSIONER MACKINTOSH: We have had, I think, three if not more, briefs from the credit unions, and my recollection is that all of them said their legislation was quite adequate and had no suggestions to make for improving it. I think my fellow Commissioners would bear that out. We

to say where they felt there were inadequacies, but they seemed a very happy movement, and felt they had the scope within which to operate.

MR. HARPER: I am rather surprised, sir: One of the things which I had in mind there was that the credit unions, as a general rule, I believe, would find it a very great advantage if they could participate in clearing house facilities, for example, which they are not able to do at the present time.

COMMISSIONER MACKINTOSH: Well, they all have arrangements of some kind -- more extensive in British Columbia than Alberta.

MR. HARPER: Yes, quite so.

COMMISSIONER MACKINTOSH: On your second point I don't quite understand what they would gain from the establishment of a co-operative bank?

MR. HARPER: Well, I am not an authority on credit unions, sir, but, as I understand it, if we had in Canada a central organization which moved on down to the provinces and to the locals in this form, that there could be legislative value and organization value to such setup. I must confess I am out of my depth here except in very general terms. From discussions with other people I know this matter has been brought up.

COMMISSIONER MACKINTOSH: They all have centrals and some of the centrals belong to the Canadian Co-operative Credit Society.

MR. HARPER: Yes.

COMMISSIONER MACKINTOSH: There are quite a

but they seemed a very happy movement, and felt they had the scope within which to operate.

MR. [illegible]: I am rather surprised, sir. One of the things which I had in mind there was that the credit unions, as a general rule, I believe, would find it a very great advantage if they could participate in clearing house facilities for example, which they are not able to do at the present time.

COMMISSIONER MACKINTOSH: Well, they all have arrangements of some kind -- more extensive in British Columbia than Alberta.

MR. [illegible]: Yes, quite so.

COMMISSIONER MACKINTOSH: On your second point I don't quite understand what they would gain from the establishment of a co-operative bank?

MR. [illegible]: Well, I am not an authority on credit unions, sir, but, as I understand it, if we had in Canada a central organization which moved on down to the provinces and to the locals in this way, that there could be definite value in organization value to such setup. I must confess I am out of my depth here except in very general terms. From discussions with other people I know this matter has been brought up.

central and some of the centrals belong to the

MR. [illegible]

few central organizations in this country. I think most of them also stress the view that in so far as they were into deposit banking they were there reluctantly and unenthusiastically. It seems to me there is a much better field in places where credit is very expensive, and the deficiencies over mortgage loans that are cluttered up with more expensive second mortgages -- even some of the areas of long-term loans for houses. I think any idea that getting further into the bank side -- and we have been concerned with this because banking institutions are under the federal government, and it is only if their banking activities are purely incidental and elementary that they fall under provincial jurisdiction.

MR. HARPER: Well, of course, the credit unions are operating in the main in cities and industrial groups, and so on, and our concern is that we believe this could be extended into the rural and farming areas, and anything that could be done to facilitate the operation of credit unions, particularly in that area, we believe, would be of value to farmers. While we are most sympathetic to it, of course, we are concerned with the extension into the rural areas to meet the rural problems. We believe the farmers would view this favourably in the light of their experience with co-operative action in other lines.

COMMISSIONER MACKINTOSH: Aren't they pretty well extended through the rural areas?

few central organizations in this country. I think most of them also stress the view that in so far as they were into deposit banking they were there reluctantly and unenthusiastically. It seems to me there is a much better field in places where credit is very expensive, and the deficiencies over mortgage loans that are cluttered up with more expensive second mortgages -- even some of the areas of long-term loans for houses. I think any idea that getting farther into the bank side -- and we have been concerned with this because banking institutions are under the federal government, and it is only if their banking activities are purely incidental and elementary that they fall under

MR. HARPER: Well, of course, the credit unions are operating in the main in cities and industrial groups, and so on, and our concern is that we believe this could be extended into the rural and farming areas, and anything that could be done to facilitate the operation of credit unions, particularly in that area, we believe, would be of value to farmers. While we are most sympathetic to it, of course, we are concerned with the extension into the rural areas to meet the rural problems. We believe the farmers would view this favourably, in the light of their experience with co-operative action in other lines.

MR. HARPER: Not too much in this province. As a matter of fact, it is just now they are beginning to go out to the small centres. I would say three or four years ago there were very few credit unions. There are more now, but it is very new, and in the light of this interest at the moment we would like to see the most favourable possible climate

THE CHAIRMAN: There is nothing to prevent them going into the rural areas, is there?

MR. HARPER: No.

THE CHAIRMAN: If a group of farmers organize a credit union?

MR. HARPER: Any group can organize a credit union, but here again we are concerned only that in so far as it is possible, legislatively and so on, that the climate be made as favourable as possible. There is nothing specific about this. It is a general recommendation and suggestion to the Commission.

COMMISSIONER BROWN: What sort of thing have you in mind? What sort of legislation -- covering what sort of points?

MR. HARPER: I am not able -- I am not a technical credit union man and I can't -- this is a general observation, that if this movement is extended into the rural areas that it is quite possible, since they will meet different problems there, that every consideration be given to it.

COMMISSIONER LEMAN: As of now, since it

is under provincial legislation, I presume if that is the feeling in the group that you are making similar representations to your own government, aren't you?

COMMISSIONER BROWN: Of course, the farmers would be really looking more for long-term credit rather than short-term?

MR. HARPER: They require both, sir: They require long-term for capital purchases, and short-term for the purchase of their weed sprays and gas for the season, and that sort of thing. They face the two expenses. This is particularly true when you have half of last year's crop still sitting in the bin and unable to sell it. This position may be changing now, but whether it is changing permanently, we don't know.

THE CHAIRMAN: I would think it would be a very simple thing for a group of farmers who were interested to approach the Central Credit Union and obtain information as to the manner in which it operates, and perhaps get some advice as to how it might work in the farm area -- whether there are any special problems they would have to face; the sort of loans they might expect, and so on. I would think that could be done if they wished to do so?

MR. HARPER: This is being done, as I have intimated, much more just lately, but it is quite new. The whole extension into this area is quite new.

THE CHAIRMAN: Because there may be special

problems that have to be dealt with before it can be very practical.

MR. HARPER: That is right.

THE CHAIRMAN: Your point really wasn't with a view to any special legislation necessarily?

MR. HARPER: No.

THE CHAIRMAN: It was a desirable prospect that might solve to some extent part of the problem?

MR. HARPER: That is right.

COMMISSIONER MacKEEN: Mr. Harper, these provincially operated treasury branches assist the farmers in loans. How do they operate?

MR. HARPER: Well, speaking from very limited knowledge I think they function very much the same as a bank. They do ordinary banking business. I have no idea as to whether they are more or less lenient in terms of borrowing but I should think it would be pretty much the same as with a person who can borrow from one can borrow from the other. They have gone into areas where there were not banks, very small areas, and have been of assistance there, I presume.

COMMISSIONER MacKEEN: You mentioned a carry-over of crop. Do you have difficulty in financing that through the banks or provincial treasury branches?

MR. HARPER: There is provision that a farmer can borrow from the banks up to a certain percentage of the crop that he has on hand. He gets this from the Wheat Board and then repays it

as he sells his grain.

COMMISSIONER MacKEEN: What percentage is it?

MR. HARPER: I think it is 50 per cent.

COMMISSIONER HARROLD: It is a maximum of $3,000 up to a maximum of 6 bushels depending on how much he has and then at the rate of 50 cents a bushel for wheat, 35 cents for barley and 20 cents for oats.

MR. HARPER: So he can get a portion of it.

COMMISSIONER MacKEEN: Is that sufficient for the farmer to enable him to carry through from one season to another?

MR. HARPER: That depends on his crop. If he had a big crop he could get along well but if he had a light crop it would be pretty thin.

COMMISSIONER MacKEEN: Well, would not the big crop go above the $3,000 limit and make it better for him to carry through?

MR. HARPER: By a big crop I mean yield per acre. If you have a very heavy yield per acre you have a fair amount of grain and you can get right up to you limit, but a small farmer with a pretty light crop would not have anything like the quantity for the limit. Here again you get into these unknown factors of what your crop is and what your yield is and things over which you have absolutely no control.

COMMISSIONER LEMAN: Mr.Harper, you mentioned the insurance protection against crop

failure?

MR. HARPER: Yes.

COMMISSIONER LEMAN: What is the situation on that score? There have been lots of studies and attempts made on this. Would you describe this for us?

MR. HARPER: Well, at the present time there is federal legislation enabling any province -- the federal legislation exists. Any province may pick this up and people within the province, either throughout the entire province or over some decided area and either for all the crops or some specific crop I don't know. But these can be insured. The federal government carries 50 per cent of the administrative cost of such a scheme and will contribute 20 per cent of the premium and the provincial government picks up the remainder of the administrative costs and can contribute at least 20 per cent -- can contribute more than 20 per cent if they will of the premium and the farmer picks up the rest of the premium.

Three test areas have been set up in Manitoba and have been operating for the past three years. Three of those same small areas were set up in Saskatchewan last year. There is no provincial legislation in Alberta covering it at all. No test areas have been set up. This is just an experiment into this thing and the governments understandably must go through it very slowly because had we had complete crop insurance throughout the

prairies last year somebody would have had to pay a lot of money.

COMMISSIONER BROWN: Is there any type of hail insurance?

MR. HARPER: Yes, there are co-operatives and provincial hail insurance companies and, of course, there are a number of line companies that insure for hail.

COMMISSIONER BROWN: Would most farmers carry it?

MR. HARPER: No, in some areas they do. Hail is predictable in some areas. Some farmers carry it but the rates are almost prohibitive.

COMMISSIONER BROWN: Some farmers have mutual hail insurance.

MR. HARPER: No, there is a co-op in Saskatchewan and the Alberta Hail Insurance Board in the province which is an adjunct of the provincial government and insures for storms, just a protective rate.

COMMISSIONER LEMAN: Is it difficult to define unavoidable crop loss? In other words, at what point is it considered there has been an abnormal loss? There would be a variation of yield during the year anyway. How do you define it? Would it be, let us say, a tragedy when it goes below 50 per cent of the past yield, or what?

MR. HARPER: Really the Prairie Farm Assistance Act, as you are probably aware, has been in operation for a number of years and in this

case the farmers who sell grain contribute 1 per cent of the sales to that fund and then this is paid out to farmers where the yield runs below 12 bushels of wheat per acre -- isn't that right?

COMMISSIONER HARROLD: I think it is 8 bushels.

MR. HARPER: Yes, I believe it is 8, I am sorry. In other words, 8 is sort of considered an arbitrary break-point. If you get less than 8 you are losing money. Actually I think you are losing quite a lot before you get to that point but the loss is insured if you get to 8. Then you qualify for this P.F.A.A. thing.

COMMISSIONER GIBSON: Could you say anything about the effect of changes in credit conditions on farmers? Do you find that when money is tight farmers have noticeably more difficulty in getting funds that they need? Are there substantial changes? How about the effect of tighter money on the price of land? Could you say something about this general area?

MR. HARPER: Well, I think that obviously ---

COMMISSIONER GIBSON: We are interested in seeing how variations in financial conditions affect various groups of the economy. And we would be very interested in knowing what the experience has been from the farmers' point of view.

MR. HARPER: I don't know that I am quite qualified to answer that, sir. I think that tight money

case the farmers who sell grain contribute 1 per cent of the sales to this fund and then this is paid out to farmers whose the yield runs below 12 bushels of wheat per acre -- isn't that right?

COMMISSIONER [illegible]: I think it is 8 bushels.

MR. [illegible]: Yes, I believe it is 8, I am sorry. In other words, it is sort of considered an arbitrary breaking-point. If you get less than 8 you are losing money. Actually I think you are losing quite a lot before you get to that point, but the loss is insured if you get to 8. That is [illegible] [illegible] [illegible] A.A. [illegible]

COMMISSIONER [illegible]: Could you say anything about the effect of [illegible] in [illegible] conditions on farmers? Do you find that [illegible] money is tight farmers have [illegible] more difficulty in getting funds [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] say something about [illegible] general [illegible]

MR. [illegible]: Well, [illegible] [illegible] [illegible]

COMMISSIONER [illegible]: We [illegible] [illegible] [illegible] see how [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] affect various groups of the economy. And we would be very interested in knowing what the experience has been from the farmers' point of view.

MR. [illegible]: I don't know that I am [illegible] qualified to answer that, [illegible] [illegible] [illegible]

has had its effect certainly. This I think would be obvious that as money becomes tighter it is more difficult to borrow etc. That would be, I think, more of a problem in the short-term operating loan than in the long-term ones because these conditions vary over a period of years. I know when money is hard to obtain the farmers do have more difficulty and where they have had short cheap interest they go to sources of credit where the interest rates are very high which is not peculiar for farmers; when they are crowded for money they go to those sources which are not too considerate of the borrower.

COMMISSIONER MACKINTOSH: I am sure one of the reasons why the credit unions have not advanced as far in the rural areas is that most of their loans, we have been told, have been for cars, household appliances and that kind of consumer loan?

MR. HARPER: Yes

COMMISSIONER MACKINTOSH: Much of this is available to the farmer under the Farm Improvement Loan Act at rates of interest very much more favourable than in this whole field of home improvement. Machinery, that kind of thing is available to him perhaps not in the quantities he might want or the volume that he wants but at more attractive rates than is possible for the credit unions to give?

MR. HARPER: Yes, the farmer of course

may be more concerned with borrowing from them for operating costs which, under the Farm Improvement Act, is not quite as simple, a short-term loan.

THE CHAIRMAN: Well, of course, in the credit union the member has to put up some money, he has contribute a certain share.

MR. HARPER: Well, he purchases shares, yes.

THE CHAIRMAN: If he has the money to contribute for his shares then it might be better to use that money to buy whatever he needs. He might have a little more out of the credit union but if a farmer wants to get more out of the credit union than he puts in the credit union it might not be very successful.

MR. HARPER: Well, of course, there are two things there that the credit unionist can borrow from his credit union more than he pays in once he has a set of shares.

THE CHAIRMAN: But if every member does it at the same time they might find themselves in difficulty.

MR. HARPER: This is true and yet it does seem to work out in credit unions. Usually there seems to be a flow in and a flow out with credit unions which keeps them on an even keel.

Another thing, farmers like anyone else are pretty human and the credit union is more than a loan value. I think there is inherent in it the ability to save and to manage credit more

may be more concerned with borrowing from them for operating costs which, under the Farm Improvement Act, is not quite as simple as a short-term loan.

THE CHAIRMAN: Well, of course, in the credit union the member has to put up some money, he has contributed a certain share.

MR. HANNAM: Well, he puts up a share, yes.

THE CHAIRMAN: If he has the money to contribute his share he might as well use the money to buy whatever he needs. It might make a little more sense for the credit union, if a farmer wants to get more out of the credit union on the deposits in the credit union, it might not be very successful.

MR. HANNAM: Well, of course, there are two things [illegible] credit union [illegible] because the credit union is the best [illegible] [illegible]

THE CHAIRMAN: [illegible] they have to [illegible] themselves [illegible]

MR. HANNAM: That is true and yet [illegible] seem [illegible] out [illegible] [illegible] seems to be a [illegible] in and a flow out from credit unions which keep them on an even keel.

Another thing, farmers like anyone else are pretty honest and the credit union is more than a loan value. I think there is inherent in it the ability to save and to [illegible]

effectively This is one of the things I know from personal experience and I like about the credit unions and that is that once you have some shares in there, you have a loan, you have to tell the credit union how you propose to pay this back and what your source of repayment will be. It beomces a matter of pretty effective money management and I think its impact in the credit union movement is of very great benefit to anyone in the credit union movement.

COMMISSIONER MACKINTOSH: I think I should make it clear that we have been very favourably impressed with the work which the credit unions have been doing.

MR. HARPER: I am very pleased to hear that.

COMMISSIONER BROWN: I wonder if I could refer for a moment to this $50,000 you have referred to. Can you tell us how they are obtaining money now under the present circumstances?

MR. HARPER: Well, in a great many ways, sir. In a good many instances, as was suggested a little while ago, the farmer who sells his land is carrying a substantial part of that debt, that is he has sold for so much cash and so much time payments and hopes he will get it out. In our office we continually have memebers coming in and asking what could be done -- an older man: "What can I do, is there any way this young fellow can get money to pay me out because I need the money

actively. That is one of the things I know from

personal experience and I like about the credit

unions and that is that once you have some shares

in there, you have a loan, you have to tell the

credit union how you propose to pay it back and

what your source of repayment will be. It becomes

a matter of a very effective money management, and

I think its impact on the credit union movement

is of very great benefit [illegible]

COMMISSIONER MACGREGOR: [illegible] I think I would

agree [illegible] we have been very [illegible]

in [illegible] the [illegible]

have been active.

MR. BARNETT: I am sorry, [illegible] and [illegible]

that.

COMMISSIONER [illegible]: I [illegible] it [illegible]

[illegible] on a [illegible] to [illegible] $40,000 you [illegible]

remember that [illegible] [illegible] [illegible] [illegible] [illegible]

money [illegible] under the present circumstances?

MR. [illegible]: [illegible] many ways

[illegible]. In [illegible] many instances [illegible] as [illegible]

[illegible] the farmer who [illegible]

[illegible] a substantial [illegible] of their debt [illegible]

[illegible] has [illegible] so much [illegible] and so much [illegible]

payments and [illegible] on. It [illegible]

[illegible] we [illegible] have [illegible] country [illegible]

or I want to do something else with it" -- so that a great deal of this money is being carried rather unhappily by the people who sell the farms.

And then, of course, the source of borrowing for these younger farmers or the men who are buying as has been suggested through the Farm Improvement Loan or the Farm Credit Corporation -- the V.L.A. of course in the past supplied a good deal of this money. Their loans end this year.

COMMISSIONER BROWN: I was trying to find out whether the person who is suffering at the moment is the buyer or the seller. Apparently it is the buyer.

THE CHAIRMAN: Perhaps they are both unhappy.

MR. HARPER: I was going to say perhaps they are both a little bit under the gun. They say only one person has to worry about a debt but I am not so sure.

THE CHAIRMAN: Well, thank you very much, Mr. Harper. We have found your submission to be one of very great interest and will give it our consideration.

MR. HARPER: Thank you very much, sir.

THE CHAIRMAN: We appreciate very much your presence here today.

MR. HARPER: I appreciate the opportunity, sir.

THE CHAIRMAN: The Commission will now adjourn and the next hearings will take place in

so I want to do something else with it -- and

that's a great deal of the money is being controlled

or manipulated by the people who sell the farms.

And then, of course, the source of borrowing

for these younger farmers or the men who are doing,

as has been suggested in all this farm improvement

loan or the Farm Credit Corporation -- the V.L.A.

in general. They supplied a good deal of this

money.

[illegible]: I was trying to find

out whether the person who is interested in the land

is the buyer or the seller. Apparently it is the

buyer.

THE CHAIRMAN: Perhaps they are both

anyway.

MR. HARPER: I was going to say, perhaps

they are both to a certain degree. They are

only one generation removed from a dollar that

was not so sure.

THE CHAIRMAN: Well, thank you very much,

Mr. Harper. We have found your submission to be

one of great interest and will give it our

consideration.

MR. HARPER: Thank you very much, sir.

MR. [illegible]: I appreciate the opportunity

Regina at the Y.M.C.A. Auditorium at 9.15 A.M. on Thursday next.

---Adjournment.

Royal Commission on Banking and Finance

Hearings held at Regina

Vol. 7

Date. March 22, 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

Nethercut & Young
Toronto, Ontario

Regina, Sask.
Thursday, March 22 1962.

ROYAL COMMISSION ON BANKING

AND FINANCE

INDEX

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Regina,
Saskatchewan, Thursday,
March 22nd, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W Thomas Brown, M B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Regina, Saskatchewan
Thursday, March 22nd, 1962.

--- On commencing at 9.15 A.M.

THE CHAIRMAN: I shall now call the meeting to order. I am sure I express the sentiments of all the members of this Commission, the Commission to enquire into banking and finance in Canada, when I say we are very happy indeed to be present in Regina this morning, and although I am told that the temperature is 5 above it does not feel that way at all.

This morning we shall receive the submission of the Credit Union League of Saskatchewan.

The Honourable Blakeney, the Treasurer of Saskatchewan, is present this morning, and it is a very great honour to have him present representing the government, and he has kindly consented to open this meeting with a few remarks on behalf of the Government of Saskatchewan. Mr. Blakeney and I have had occasion to meet on a number of occasions in the past, and it is a very great pleasure to meet him here again today. I shall now call on Mr. Blakeney.

THE HON. MR. BLAKENEY: Mr. Chairman and members of the Commission: It is for me a very great honour and real privilege to welcome you to Saskatchewan on behalf of the Government of Saskatchewan. We certainly are glad that your Commission is sitting; we are glad you have found it possible to hold one of your hearings in Regina.

The province of Saskatchewan has problems with respect to banking and with respect to finance; so, indeed, do other local governments in Saskatchewan and so do the people of Saskatchewan. Lacking any direct and exclusive communication with the deity or the Prime Minister, which some other people appear to have, we feel therefore we are very glad your Commission is sitting here because we think that the problems which face us are ones which can be solved at least in part by the application of learning and intelligence to these problems. Believing this as we do, we are most happy that your Commission is here and that it has men of such stature as are with you, Mr. Chairman, as your colleagues on the Commission. We are confident that the Commission will make a very substantial contribution to the solution of Canada's problems in the field of banking and finance, and accordingly we look forward, firstly, to presenting our brief to you tomorrow, and secondly to your deliberations across Canada and, more importantly, to your report and your recommendations.

Again may I express on behalf of the Premier and my colleagues our warmest and most sincere welcome to Saskatchewan, and wish you successful hearings here in the course of your duties.

THE CHAIRMAN: Thank you, Mr. Blakeney. I will now call on Mr. R. J. Neville, the President of the Credit Union League who, I understand, is prepared to present the submission to this Commission.

SUBMISSION OF CREDIT UNION LEAGUE
OF SASKATCHEWAN

APPEARANCES

R.J. Neville	-	President
G.A. Charbonneau	-	Managing Director
Geo. Munro	-	President, Saskatchewan Co-operative Credit Society.
B. Johnson	-	Secretary-Manager, Saskatchewan Co-operative Credit Society.
L. Tendler	-	Treasurer, Saskatchewan Co-operative Credit Society.
H.A. Wagner	-	Manager, Co-op Trust Company.

MR. NEVILLE: Mr. Chairman, I would first like to add my welcome to that of the Provincial Treasurer to your presence in Saskatchewan.

I would like at this time to introduce various members of this panel and some resource people we have along with us. Before I do so, may I say that while this submission is in the name of the Credit Union League of Saskatchewan, both the Saskatchewan Co-operative Credit Society and the Co-operative Trust Company are associated in the preparation and presentation of this brief. The reason is, of course, the close association between the three organizations.

I would then introduce, Mr. Chairman, Mr. B. Johnson, Secretary-Manager of the Saskatchewan Co-operative Credit Society; Mr. George Munro, President of the Saskatchewan Co-operative Credit Soceity and of the Co-operative Trust Company; Mr. G.A. Charbonnneau, Managing Director of this League; Mr. L. Tendler, the Treasurer of the Saskatchewan Co-operative Credit Society; Mr. Harold Wagner, Manager of the Co-operative Trust Company.

Now, Mr. Chairman, if I may, there are four or five people in the audience I would like to introduce: Mr. C.A. Snell, Director of the Credit Union Services, Department of Co-operation; Mr. A.A. Heidt, Economist, Director of Research Services Branch, Department of Co-operation; Mr. B.G. Delgatty, Manager, Nokomis Credit Union; Mr. Ron Bunn, Manager, Moose Jaw Credit Union; Mr. Harry Gemmel, Manager, Sherwood Credit Union, Regina; and Mr. Ted Hughes, Solicitor for the Co-operative Credit Society.

Also, Mr. Chairman, I would suggest that you may direct questions so far as the League is concerned to Mr. Charbonneau, those that concern the Credit Society to Mr. Johnson, and those concerning the Trust Company to Mr. Wagner.

--- Mr. Neville reads summary to brief. (See Vol. 6A)

MR. NEVILLE: I should make some clarification at this point: The credit unions, of course, do notwholly own these two organizations,

I would then introduce, Mr. Chairman, Mr. B. Thompson, Secretary-Manager of the Saskatchewan [illegible]

President of the Saskatchewan Co-operative Credit Society and of the Co-operative Trust Company; Mr. G. A. Charpentier, Managing Director of this League; Mr. L. Tendler, the Treasurer of the [illegible]

Harold Wagner, Manager of the Co-operative Trust Company.

Now, Mr. Chairman, if I may, there are four or five people in the audience I would like to introduce: Mr. C.A. Snell, Director of the Credit Union Services, Department of Co-operation; Mr. A.A. [illegible], Economist, Director of Research Services Branch, Department of Co-operation; Mr. R.C. [illegible], Manager, [illegible] Credit Union, Mr. [illegible], Manager, Moose Jaw Credit Union; Mr. Harry [illegible], Manager, Sherwood Credit Union, Regina; and Mr. Ted Hughes, Solicitor for the Co-operative Credit Society.

Also, Mr. Chairman, I would suggest that you may direct questions so far as the League is concerned to Mr. Charpentier; those that concern the [illegible]

the Trust Company to Mr. Wagner.

([illegible] reads summary of brief. (See Vol. 6.))

MR. [illegible]: I should make one [illegible] at this point: The credit unions of course, do not wholly own these two organizations,

the Credit Society and Co-operative Trust Company, but do so along with the co-operatives.

COMMISSIONER HARROLD: Mr. Chairman: Going back to the first part of your summary and, indeed, this follows the brief you have presented fairly fully, you go into the history and growth of the credit unions here in Saskatchewan, and I think we are rather interested in the pattern of this growth and implications of it, and what the future may be, but in your history you suggest the number of unions in 1954 was 271, and in September, 1961 it was 279. The number of members is listed as 75,800 and some in 1954, and in 1961 152,000. In other words, the number of unions has stayed relatively constant, your members have almost doubled, but when you get to the assets you find in 1954 there was listed $29,500,000 in assets, and in 1961 $108 million. In percentages I believe it works out that in 1960 there was an increase of 24 per cent in assets and a further 22 per cent from 1960 to 1961. Would you like to make a comment on this pattern of growth, and whether you see any significance in it -- the growth of the assets as compared to the number of unions and members?

MR. CHARBONNEAU: Mr. Harrold, I think that we could probably attribute the growth of the credit unions in the latter years to mainly a couple of points, the one being that throughout the years in the early growth of the credit unions these organizations proved to their members that they

but do so along with the co-operatives.

Going back to the facts part of your summary and, indeed, this follows the brief you have [illegible] fairly fully. You go into the history and growth of the credit unions here in Saskatchewan, and I think we are rather interested in the pattern of this growth and implications of it, and what the future may be, but in your history you suggest the number of units in 1954 was 271, and in September, 1961 it was 276. The number of members is listed at 75,800 and some in 1954 and in 1961 155,000. In other words, the number of unions has stayed relatively constant, your members have almost doubled, but when you get to the assets you find in 1954 there was listed $29,500,000 in assets, and in 1961 $[illegible] million. In percentages I believe it works out that in 1960 there was an increase of 24 per cent in assets and a further 72 per cent from 1960 to 1961. Would you like to make a comment on this pattern of growth and whether you see any significance in it -- the growth of the assets as compared to the number of unions and members?

MR. CHARBONNEAU:- Mr. Harrold, I think that we could probably attribute the growth of the credit unions in the latter years to mainly a couple of points, the one being that throughout the years in the early growth of the credit unions

were able to satisfy their savings and credit needs, and therefore built up, I would think, some confidence amongst their membership, mainly because they were able to adapt their services to the needs in these smaller communities; also I think the sociological aspects of working together in a community for the betterment of the community and I would suggest that probably another prime factor in the growth would be the natural growth of the economy and therefore accelerating naturally the growth of the credit unions.

COMMISSIONER HARROLD: Do you find any difference, say, in the trends in the community credit unions as compared to a credit union in the occupational groups?

MR. CHARBONNEAU: We do not have the exact breakdown at our disposal. However, I believe it is safe to say that the general pattern of growth has been fairly constant throughout in the community type credit unions and in the occupational type. By "occupational type" I would suggest we mean credit unions organized amongst the professional associations such as your civil service, municipal employees and employees of associations. We have found that the growth has been fairly constant in comparison.

COMMISSIONER HARROLD: One more question along the same lines. When you organized your Saskatchewan Co-operative Credit Society have you noticed any more surplus funds put into the Central Credit Society in recent years in comparison with

before that or an increase in the amount of funds available in the Central as compared to going back, say, five years?

MR. CHARBONNEAU: Yes, I think we have to say that there have been more surplus funds available to distribute in the Saskatchewan Co-operative Credit Society because our loaning ratio has remained fairly constant and as our assets have increased naturally more money has been available to put in the Central but our loaning ratio has remained fairly constant.

COMMISSIONER HARROLD: One further question. Would this suggest to you less need for credit in the particular community and therefore there would be a surplus of funds for the community Central, more so than, say, five years ago?

MR. CHARBONNEAU: I do not think that the answer is that there is less need. Probably the reason is that we have conducted our loaning distributions much the same as we did in the earlier years and maybe we have not kept pace with some of the loaning needs through having more surplus funds available.

COMMISSIONER GIBSON: Following Mr. Harrold's questions on growth, you have had this very marked increase in assets, a fairly marked increase in membership in the last seven years. Is it fair to assume that you have more or less built the structure and then went to work and intensified the development programme? It is quite remarkable that you have so little increase in the number of credit

unions but such an increase in assets and membership?

MR. NEVILLE: One thing there, sir, instead of concentrating on the number of credit unions we have been concentrating on the quality and in service which I would say had an effect probably on the increased growth.

COMMISSIONER GIBSON: You would be running a pretty intensive educational development programme, I take it, particularly in recent years?

MR. CHARBONNEAU: Yes, in line with your questioning, sir, the Credit Union League, which is the central service organization for the credit union movement in this province, until five years ago was staffed with only a few people and a very basic educational programme. This organization is supported by a dual pattern. It is a self-supporting organization by the credit unions and five years ago there was a new pattern developed in that the credit unions felt we were in need of more intensive officer training, more intensive public relations and therefore it was the wish of the membership at that time to increase the dues thereby permitting us to hire more people and conduct more intensive educational and more intensive officer training, more intensive public relations programmes and give better service to the member organizations.

COMMISSIONER GIBSON: It would be fair to say that you have become a more intensive type of organization in recent years?

MR. CHARBONNEAU: Yes.

COMMISSIONER BROWN: Has this rate of growth been largely in the two large institutions in Saskatoon and Regina?

MR. NEVILLE: I would have to say these communities are growing in Saskatchewan and this growth is at the expense of the rural organizations. I think our credit union movement has kept pace with their movement.

COMMISSIONER BROWN: There has been a bigger growth in Saskatoon and Regina?

MR. NEVILLE: Yes, because I think these two cities are growing larger than the surrounding areas. They are, yes. Moose Jaw, Assiniboia and Swuft Current are not much behind in total assets.

COMMISSIONER BROWN: Could you give us your estimate of what factors have attracted people? Has it been the interest rates, has it been life insurance, has it been the facilities for checking and borrowing money? What have been the factors that have attracted these members?

MR. CHARBONNEAU: Well, I think there are many factors, sir, that can be attributed to the growth and I believe that one of the main factors, particularly in the community type credit union, is the idea of the members working together for the benefit of the community; in other words, the increase of the buying power right in the local community by the individuals, money in the community to loan, paying money in the community and through the purchases from the resulting loan being made in the community.

Therefore, all the people of the community are benefitting jointly from this type of endeavour and I think this has been probably one of the biggest contributions to the growth of the community type credit union.

The other factor is the voluntary co-operation of the leadership by the officers and the elected officers who constantly work to give good service, constantly work to determine the needs of the people of the various communities and strive more and more to take care of those needs. I think this has been the one prime factor in the credit union movement in our province.

COMMISSIONER MACKINTOSH: Do you find as you hire and train more professional men that the movement becomes more a matter of expert management and that the personal element declines -- a less active member participation and more a company operation?

MR. CHARBONNEAU: To answer that, sir, I think I must say in all fairness that we certainly have striven to improve constantly the area of management, to improve managers, to improve qualifications so that they may become better able to serve the technical needs.

However, we have not found that because of this professionalism in management, if you want to call it that, that this has at all detracted from the value of the volunteer participation by directors and committee men. In fact, if anything it has given them more incentive because they feel they are

Therefore, all the people of the community are benefiting jointly from this type of endeavor, and I think this has been probably one of the biggest contributions to the growth of the community type [illegible].

The other factor is the continuing [illegible] of the [illegible] deeply by the officers and the several officers who consistently work to give good service, [illegible] work to [illegible] the needs of the people in the various communities and [illegible] take care of those needs. [illegible] prime factor in the credit union movement [illegible] [illegible].

COMMISSIONER MCKINNON: [illegible] as you like [illegible] your own [illegible] movement becomes [illegible] a [illegible] and that the personal element [illegible].

MR. CHAMORRO: [illegible] I think I must say [illegible] that [illegible] have [illegible] to improve continually [illegible] men [illegible] so that they may [illegible] necessary [illegible].

However, [illegible] of this profession [illegible] management. [illegible] you [illegible] the value of [illegible] personal [illegible] [illegible].

getting more help on the technical and so they are more capable and more able to make policy decisions that will be in line with a good operation.

THE CHAIRMAN: What sort of educational programme do you carry out, just to get a picture of the way you do it? Is it by meetings or literature? I am very much interested in that.

MR. CHARBONNEAU: Our educational programme, sir, is taken from different facets. We have a specific educational programme for the advancement of credit union managers in that we do hold specialized management courses in our own Western Co-operative College which is established in Saskatoon to work closely in conjunction with the University of Saskatchewan with the adult education division and it acts as a co-ordinator for the courses but in this course we do draw resources -- people from business management, from all fields which in the opinion of the professors at the college will improve the calibre of the management and I think in our brief we have some exhibits of the type of training that is given to our credit union management.

We have three types of course. We have a course provided for the beginners, the people who have just taken over the management of the credit union. This is called the introductory course. Then, we have a more advanced course for the people who have been in as managers from two, three to five years. Then, we have what we call our executive management course and we try to tailor our programme to the experience of the manager.

getting more help on the technical and so they are more capable and more able to make policy decisions that will be in line with a good operation.

THE CHAIRMAN: What sort of educational programme do you carry out, just to get a picture of the way you do it? Is it by meetings or literature? I am very much interested in that.

MR. [illegible]: Our educational programme, sir, is taken from different facets. We have a specialized educational programme for the advancement of credit union managers in that we do hold specialized management courses in our own Western Co-operative College which is established in Saskatoon to work closely in conjunction with the University of Saskatchewan with the adult education [illegible] and we [illegible] for the courses but in this course we do draw resource people from business management [illegible] which in the opinion of the professors of the college will improve the calibre of the management and I think in our brief we have some exhibits of the type of training that is given to our credit union management.

We have three types of course. We have a course provided for the beginners, the people who have just taken over the management of the credit union. This is called the introductory course. Then we have a more advanced course for the people who have been in as managers from two, three to five years. Then, we have what we call our advanced management course and we try to tailor our programme to the experience of

Then, we also promote the attendance of our managers at university courses. We have a specialized credit union management course that is conducted at the University of Wisconsin on an international basis and this is dealing strictly with management training and anyone who has completed our three courses is offered scholarships for advanced training. This is one area of training but our prime consideration is the training of our credit union volunteer people and this is done through a chapter programme.

We have our province divided into 25 chapters. These are voluntary associations and are formed on a geographical basis to make it possible and particularly taking into consideration distance, that these voluntary people can assemble and group five or six times a year for two or three hour educational sessions.

These are mainly in the areas that will help them as boards of directors and as supervisory committees to do a better job. In the examples that we have in our brief there are board management relations. In the credit field for credit committees and in the accounting field for supervisory committees to constantly review the Act and to help them as policy makers do a better job.

This is our educational programme. Then, of course, we have our public relations people which we do not consider quite as a part of education. This may be found too in our brief.

THE CHAIRMAN: Thank you very much.

Then, we also promote the attendance of our managers at university courses. We have a specialized credit union management course that is conducted at the University of Wisconsin on an international basis and this is dealing strictly with management training and anyone who has completed our three courses is offered scholarships for advanced training. This is one area of training but our prime consideration is the training of our credit union volunteer people and this is done through a chapter programme.

We have our provinces divided into 25 chapters. These are voluntary associations and are formed on a geographical basis to make it possible and particularly [illegible] into consideration distance that these voluntary people can assemble and group five or six times a year for two or three hour educational sessions.

These are mainly in the areas that will help them as boards of directors and as supervisory committees to do a better job. In the examples that we have in our brief there are board management relations. In the credit field for credit committees and in the accounting field for supervisory committees to constantly review the [illegible] and to help them as policy makers do a better job.

This is our educational programme. Then, of course, we have our public relations people, which we do not consider quite as a part of education. This may be found too in our brief.

THE CH[illegible]

COMMISSIONER HARROLD: Mr. Chairman, might I ask one more question on growth. I may not have asked my question originally quite right but in answer to the reasons why your credit unions have increased in the last few years significantly I think you suggested that it was because of local conditions and local loans and the local savings but it does not seem to my mind quite tied in with the very rapid expansion of the Credit Society because, as I understand it, when the funds are called into the Central Credit Society they are not usually used locally by way of investment. The graphs that are shown in your 21st Annual Report show a very marked increase from 1957 to 1960 both in share capital, total reserves, dividends, interest etc. My question is how does that tie into your explanation of the growth as far as conditions in local communities are concerned?

MR. CHARBONNEAU: Would you mind if I deferred this to Mr. Johnson, the Manager of the Credit Society?

MR. JOHNSON: I think, sir, we are really dealing with two things here -- the growth at the local level and the investment by the credit unions in the Credit Society.

One must remember that when a credit union deposits its temporary surplus fund or its surplus fund in the Saskatchewan Co-operative Credit Society that these funds are always available to the credit union for use at the local level either by withdrawal of the share capital, by withdrawal of

might I ask one more question on growth? I [illegible] have [illegible] discussion [illegible] [illegible] you suggested that it was because of [illegible] and local banks and [illegible] perhaps that it does not seem to my mind [illegible] expansion of the Credit Society [illegible] I understand it, when the funds are [illegible] Central Credit Society, they [illegible] Annual Report [illegible] to 1960 [illegible] My question [illegible] growth [illegible] in local [illegible]

A. [illegible] I believed [illegible] of the Credit Society?

Q. [illegible]

[illegible]

deposits or by withdrawal of borrowings against share capital. Their money is therefore not lost to the credit union for any local purpose.

Very frequently we find that credit unions borrow capital against their share capital in order to meet more of their local requirements. The main purpose of the creditunions in investing in the Saskatchewan Co-operative Credit Society is to keep this money in a position where they can draw on it and have it liquid for their use at any time.

COMMISSIONER LEMAN: Mr. Charbonneau, there are two points I would like to ask some questions about. One is the expression in your summary here where you quote the Credit Union Act and you say that in the creation of a source of credit for its members at legitimate rates of interest, etc., for a provident and productive purpose. Now, in what sense are those two words used? For instance, if you are granting a lot of consumer loans, for instance, to what extent do you feel that those loans answer to the description of a "provident and productive purpose"?

MR. CHARBONNEAU: In answer to that, sir, all credit committees in the examining of credit applications by credit union members give prime consideration to whether or not the loan will be of benefit to the member. At least we hope that we are very cautious in the granting of loans particularly in the consumer field, that we are not helping a member to get into debt further and beyond his ability to

deposits or by withdrawal of borrowings against share capital. Their money is therefore not lost to the credit union for any local purpose.

Very frequently we find that credit unions borrow capital against their share capital in order to meet more of their local requirements. The main purpose of the creditunions in investing in the Saskatchewan Co-operative Credit Society is to keep this money in a position where they can draw on it and have it liquid for their use at any time.

[illegible] there are two points I would like to ask some questions about. One is the expression in your summary here where you quote the Credit Union Act and you say that in the creation of a source of credit for its members at legitimate rates of interest, etc., for a provident and productive purpose. Now, in what sense are those two words used? For instance, if you are granting a lot of consumer loans, for instance, to what extent do you feel that those loans answer to the description of a "provident and productive purpose"?

MR. CHARBONNEAU: In answer to that, sir, all credit committees in the examining of credit applications by credit union members give prime consideration to whether or not the loan will be of benefit to the member. At least we hope that we are very cautious in the granting of loans particularly in the consumer field, that we are not helping a member to get into debt further and beyond his ability to

repay. This is one of the prime considerations when we say that our loans are for a provident and productive purpose so that they will in some measure benefit the credit union member either to provide him with a better standard of living, to provide him an opportunity to make a better standard of living or in the consumer field so that it is something the member is buying for necessity not necessarily a luxury.

COMMISSIONER LEMAN: This is tied in a little bit with the first question. You used the expression that credit unions are a stabilizing factor in the economy. A stabilizing factor can have various meanings -- a very technical meaning or a more broad meaning. In what sense are you using "stabilizing"? Do you consider yourself counter-cyclical or in what manner do you use "stabilized"?

MR. CHARBONNEAU: We feel we are a stabilizing influence on the economy of a community. As I believe I explained at the outset we feel that if a local community can provide itself with a source of credit and the return from the supply of this credit can stay within the community we feel that this has a very definite stabilizing influence in that the money stays right within the community.

The other stabilizing influence is, we feel, that by offering an alternate credit to our members in the community we can prevent them -- or at least we offer an alternate -- from paying rates of interest for the same product which are comparably

higher and therefore the difference in savings is accrued to the member and to the community in general.

COMMISSIONER LEMAN: You were therefore using "stabilizing" in rather a non-technical sense?

MR. CHARBONNEAU: Right.

THE CHAIRMAN: This may be a question that is impossible of answer but you might be able to say something about. Where a credit union operates in a community and becomes influential in many ways, would you say that the result of that influence generally may be that the people become more provident in the use of their funds than ordinarily, that as a result of the sort of function and background, the contact with the members of the union and the officers of the union, that people are apt to spend their money perhaps a little more wisely than they otherwise would?

MR. CHARBONNEAU: Sir, this is one of our main purposes.

THE CHAIRMAN: I understand that. I presume you cannot measure it in statistics.

MR. CHARBONNEAU: I believe it will be very difficult to measure it statistically. However, we do have some case histories where in some of the smaller communities, in fact in any credit union, where we have been able to do what we term financial counselling, to actually improve the borrowing habits and the saving habits of many of our members through the constant review of their financial position and the constant help we are giving them in better understanding their own finances. As to measuring this,

I believe it would be quite difficult.

THE CHAIRMAN: Oh yes, I was not expecting you to do that; it was just a suggestion more than anything else.

COMMISSIONER GIBSON: Getting back to the question of your growth and the pattern it has followed, would you care to give us your impression as to the prospects for the future as to the pattern your future development and future growth might follow? I am looking at your picture so far: You seem to have done the initial job of setting up unions quite a few years ago and developed them a good deal since, and that has represented a further growth in your assets. I take it there are not any great gaps where credit and savings facilities are needed as they were when you started up? I am just wondering if you would care to give us a little of your thinking as to where you are going?

MR. NEVILLE: I think we should first say there are some gaps with the concentration of more people in the cities. I don't think we feel we have reached all of them yet. So, I would not agree there are not gaps.

COMMISSIONER GIBSON: No; I am asking a question. I am not making a statement.

MR. CHARBONNEAU: The projection into the future depends, I think, on a great many factors: Certainly, the over-all economy and availability of saving funds by our members. However, we do feel that the growth will in all probability continue at a similar rate in

our community credit unions to a point where we hope we have been able to satisfy the general loaning requirements of our members. I would say that with the shifting of population that we have in Saskatchewan from the very smaller centres to what we call the trading centres -- not necessarily our cities -- but our larger towns which are tending to develop more adequate commercial facilities all around, it is doubtful whether we will have the same increase in the number of credit unions, particularly in our rural centres. There are perhaps some larger towns that will ask for an organization of credit unions in the future, but I think this will be very limited. As far as the growth of our credit unions in our cities is concerned, this probably will depend largely on whether we get more industrialization in our cities. As you are probably aware, as we get more industry we will have more small groups and more small bond associations.

COMMISSIONER GIBSON: Occupational groups?

MR. CHARBONNEAU: That is right. At the present time we do not have this large industrialization and we do not see too many more credit unions in the cities. However, we do see a constant growth ---

COMMISSIONER GIBSON: Of operating credit unions -- growth of your membership and, presumably, a more proportionate increase in your assets?

MR. CHARBONNEAU: I think it is safe to say per member we will continue to grow.

COMMISSIONER GIBSON: But you do not see

this very steep rate of 20 to 25 per cent a year continuing indefinitely, I take it, in assets?

MR. CHARBONNEAU: We have not projected that far into the future, but the economy as a whole is probably the only thing that can determine this, because our average savings per member is around $600, and every member we add, probably, we feel our average savings will continue on that pattern.

COMMISSIONER HARROLD: When you say, "economy as a whole" are you referring to the economy in Saskatchewan?

MR. CHARBONNEAU: Yes, in Saskatchewan. We are, as you are no doubt aware, practically wholly dependent on our economy in Saskatchewan.

COMMISSIONER MacKEEN: How does membership vary in these unions from a small one up to -- what is the maximum size of the credit unions?

MR. CHARBONNNEAU: Under our Act we have no stipulation as to minimum or maximum size, but we do as a matter of operational policy feel we must have a potential of 100 members in order to organize a credit union. We do not encourage an organization of a credit union unless in the group that is asking to be served they have a potential of 100 members. As to the maximum size, we have no pre-determined -- we have two credit unions in our province at the present time which do have a membership of approximately 10,000, in our two larger cities.

COMMISSIONER MacKEEN: What would the bond be in that case?

MR. CHARBONNEAU: I think we could honestly say that the bond of association in these larger groups tends to be the credit union or the organization itself. It is very difficult to have as close a bond of association in a group of this size as we would have in a close knit group of an industrial or an associational or small group where you know all your members. Undoubtedly, the bond of association in the larger credit unions tends to be the fact they belong to an organization they call their own -- a credit union.

COMMISSIONER LEMAN: The egg becomes the chicken?

MR. CHARBONNEAU: Well ---

COMMISSIONER MacKEEN: They would be citizens of Regina -- that would be the bond?

MR. CHARBONNEAU: Yes.

COMMISSIONER BROWN: In the Annual Report of the Credit Union League you always seem to be worrying about this a little bit.

It says: "While this appears to be commendable progress, nevertheless a thorough analysis would probably reveal that 15 per cent of the membership own approximately 80 per cent of the assets."

I assume you mean 15 per cent of the unions?

MR. CHARBONNEAU: Yes.

COMMISSIONER BROWN: Then you say in the next sentence: "This situation will call for

accelerated education and member relations programmes at the local level".

MR. CHARBONNEAU: Yes.

COMMISSIONER BROWN: Would you regard this as a problem or not?

MR. CHARBONNEAU: Yes. We do not think it is a major problem, but we do think it is a problem because we feel very strongly that people who belong to a credit union should know the reasons, and are all well aware of the wnole philosophy behind the organization of such a financial group and are all aware that in the services offered there are some basic reasons for these and, naturally, in a large community it is very difficult to reach each member individually, and we feel this is a vital point. Of course, in the smaller communities a lot of this can be done by actual person to person contact by employees of the credit union and by the elected officials. It is easier to get meetings of people for educational purposes in a smaller group. However, in the larger groups there has been an accelerated programme of education through the mass media -- I mean, these larger groups are tending to spend more money through education and public relations in order to better inform their members of what the organization is doing and the services that it has to offer, and this, in our opinion, sir, does pose some problems in terms of trying to reach each individual member, and when you are taking a look at 10,000 -- and in our report this is what we refer to -- it will necessitate

accelerated education and member relations programmes at the local level".

MR. CHASSONNEAU: Yes.

[illegible]

this as a problem or not?

MR. CHASSONNEAU: Yes. We do not think it is a major problem, but we do think it is a problem because we feel very strongly that people who belong to a credit union should know the reasons, and are all well aware of the whole philosophy behind the organization of such a financial group and are all aware that in the services offered there are some basic reasons for these and, naturally, in a large community it is very difficult to reach each member individually, and we feel this is a vital point. Of course, in the smaller communities a lot of this can be done by actual person to person contact by employees of the credit union and by the elected officials. It is easier to get meetings of people for educational purposes in a smaller group. However in the larger groups there has been an accelerated programme of education through the mass media -- I mean, these larger groups are tending to spend more money through education and public relations in order to better inform their members of what the organization is doing and the services that it has to offer, and this, in our opinion, sir, does pose some problems in terms of trying to reach each individual member, and when you are taking a look at 10,000 -- and in

efer to -- it will necessarily

more programmes to ensure we are not getting a member on the books, and that we are getting a member who knows what his organization is doing and knows his responsibility as a member of the organization. We feel very strongly about this.

COMMISSIONER LEMAN: This is probably not a matter of statistical control, but could you detect any difference in active membership at meetings at the credit union level between those who are savers, investors in the credit unions, and non-borrowers as against those who are borrowers?

MR. CHARBONNEAU: Well, I think the problem -- we are getting now -- I assume you are asking about the participation at an annual meeting or an educational meeting?

COMMISSIONER LEMAN: Well, general active participation and general interest in the credit union.

MR. CHARBONNEAU: Well, I think of course we are faced with probably the same problem as all organizations of this type are faced with in that the people who take part in these meetings are ordinarily the people who are active in their credit unions; in other words, who do their savings and borrowings with their credit union, and we feel, I suppose like all our civic councils do, that we need to reach the people who are actually members and tell them the story so they can become active, because there is a definite trend that the people who know about their organization are the people who

[illegible] to ensure we are not getting a member on the books, and that we are getting a member who knows what his organization is doing and knows he is represented by a member of the organization. We feel very strongly about this.

(Senator TOWER. This is a concern [illegible] to a matter of such internal control, not really [illegible] detect any [illegible] or active [illegible] [illegible] credit union [illegible] those who are [illegible] in the credit unions [illegible] members [illegible] those who are [illegible] [illegible]: Well, I think the problem [illegible] we are getting now -- I believe you are [illegible] about our participation [illegible] of an [illegible] or an [illegible].

[illegible] participation [illegible] at [illegible] union.

MR. [illegible]: Well [illegible] we [illegible] with [illegible] problem as all organizations of this type are faced with is that [illegible] [illegible] the people who are active in their credit unions; in other words, who do their savings and borrowing with their credit union, and we feel [illegible] [illegible] our credit unions, then we need [illegible] the people who are actively members and [illegible] [illegible] they can become [illegible] [illegible] and that [illegible] the people [illegible] in credit [illegible] the [illegible]

do most of their business through the organization, and we feel it is not enough to take a member in on the books, but we have to tell him more so he can make a decision as to whether to continue to patronize the organization or not.

MR. NEVILLE: I do not think you can find a statistical answer to that. On my own board, for instance, the majority of the board have loans from the credit union. So, I don't think there would be any statistical answer to that.

COMMISSIONER GIBSON: You said earlier, Mr. Charbonneau -- and I do not have your exact words -- but you indicated you do not encourage credit unions of less than 100 membership?

MR. CHARBONNEAU: That is right.

COMMISSIONER GIBSON: Is this because you cannot make an effective operative unit? I notice you give one of 38: There are a few small ones. Is this because you cannot get enough savings together to make it effective? Obviously you have the bond when you have got a few people -- they will know each other.

MR. CHARBONNEAU: What I said , sir, is that we pre-determine a potential of 100. We do have the odd one with less than 100, but in the group there are either 100 employees, for instance, in this particular plant, and the main reason -- yes, it must be that even though it has the sociological concept there -- in other words, a group of people working together to solve their own financial needs, unless you

do most of their business through the [illegible] and we feel it is not enough to have a [illegible] been broken, [illegible] to tell [illegible] make a [illegible] as to whether [illegible] the [illegible] so.

[illegible] that you can find a [illegible] answer to [illegible] for instance, the [illegible] from the [illegible] I don't [illegible] answer so [illegible].

[illegible]

Mr. [illegible] but you [illegible] of [illegible].

Mr. Goldschmidt. [illegible]

[illegible] we [illegible] you [illegible] of [illegible] to [illegible] tell [illegible] who you [illegible].

Mr. [illegible]

[illegible] the [illegible] and [illegible] consumers [illegible] and the [illegible] that [illegible] had the [illegible]

have enough money to solve these needs, really, there is some difficulty in getting the members to participate, and I think one of the reasons certainly is that we feel 100 people is a prerequisite in order that they can assemble enough savings to solve their own loaning needs.

COMMISSIONER GIBSON: And that is thinking in terms of a rural union, particularly, is it? I notice your rural unions -- you give a more what I might call medium term credit, and in some cases larger loans. They are not on these little personal loans.

MR. CHARBONNEAU: Yes, that is right.

COMMISSIONER GIBSON: Is it amongst the small unions you have this turnover? I notice from year to year there are quite a few go out and new ones come in: Are these the little ones?

MR. CHARBONNEAU: Yes, very definitely, sir. The main reason is, number one, in many of the smaller unions that have not grown, probably can be attributed largely to the lack of local leadership. At one particular time when they organized the credit union there was a group of people who were active and interested in seeing such an organization develop. However, because of circumstances, I would presume beyond the control of that credit union, some of this leadership has either left the community or passed away, and so on, and has left the credit union with this lack of leadership. Therefore, it has never developed. Many of these smaller ones have gone out

of existence because of this voluntarily. The other thing is we do have some tendency towards amalgamation now because of the floating population to the more commercialized centres or the larger trade centres.

COMMISSIONER GIBSON: In other words, if you want to make a small union work you have got to have a spark-plug that will give voluntary time?

MR. CHARBONNEAU: That is very important.

COMMISSIONER MACKINTOSH: I notice in contrast with the credit union organizations in some of the other provinces we have visited, you have, as Mr. Gibson said, a good many loans -- there are some here marked for land payments and mortgages retired, and buildings and improvements: The greater proportion of these would be for a considerable term, wouldn't they?

MR. CHARBONNEAU: Yes. I think, in order to develop this more thoroughly, maybe we should outline what in the opinion of the credit union people are the variance in terms. We feel in credit union operations that a loan up to one year duration is a short loan. We feel that a loan from two years to five years would be a medium loan; and from five years up to a maximum -- I must say -- of ten years would be a long term. We have very few loans in the five to ten year category. Our whole operation is concentrated -- I should say, the major part of our operation is concentrated on the short and intermediate term loans, which would mean from one to five years.

of existence because of this voluntariness. The other thing is we do have some tendency toward [illegible]

to the more commercialized centres or the larger trade centres.

COMMISSIONER GIPSON: In other words, if you want to make a small union work you have got to have a spark-plug that will drive voluntary [illegible]

MR. CHARBONNEAU: That is very important.

COMMISSIONER MACKINTOSH: [illegible] in contrast with the credit union organization in some of the other provinces we have visited, and I take it as Mr. [illegible] said, a good many loans -- more than some here -- are for land payments and mortgages retired, and buildings and improvements. The [illegible] proportion of these would be for a [illegible] wouldn't it?

MR. CHARBONNEAU: Yes, [illegible] to develop it more thoroughly, maybe we should [illegible] much of the [illegible] in the credit union [illegible] the [illegible] terms. [illegible] in [illegible] general was [illegible] loan up to one year [illegible] short term. We call it a loan from two years [illegible] five years would be a medium loan, and term [illegible] years [illegible] to a maximum -- I must say -- [illegible] would be a long term. We have very few loans [illegible] than [illegible] year maximum. Our whole [illegible] concentration -- I should say, the major part of our operation is concentrated on the short and intermediate [illegible] term from one to five years.

COMMISSIONER MACKINTOSH: You mean land payments would be financed by as short a credit as that?

MR. CHARBONNEAU: Yes.

COMMISSIONER MACKINTOSH: Does the Trust Company then make long-term loans?

MR. CHARBONNEAU: This, sir, is the organization that was developed to take care of this long-term credit and we have the manager here if you care to question him on this aspect of it.

COMMISSIONER MACKINTOSH: I am interested in learning more about these two organizations, these two courses of development, one toward long-term loans because you are concerned with families and communities. The business of housing, not necessarily first mortgage financing but all the ancillary finances bound up with housing is a very important element in that type of financing. On the other hand, there is some movement towards checking accounts which is at the other end of the scale with some of the credit unions coming close to operating demand deposit businesses with a fairly full checking service. Is the movement going along both these fields, that is, the trust companies developing as a specialized service on the one hand or do you think its destiny is in the short-term finance end of the scale? Is there a steady increase in the number of unions operating checking accounts and the turnover in these accounts?

MR. CHARBONNEAU: Well, sir, firstly I would just point out that in our Act the deposits

COMMISSIONER MACKINTOSH: You mean land payments would be financed by as short a credit as that?

COMMISSIONER MACKINTOSH: Does the Trust Company then make long-term loans?

MR. CHARTONNEAU: This, sir, is the organization that was developed to take care of this long-term credit and we have the manager here if you care to question him on this aspect of it.

COMMISSIONER MACKINTOSH: I am interested in learning more about these two organizations, these two courses of development, one toward long-term loans because you are concerned with families and communities. The business of credit, not necessarily first mortgage financing but all the ancillary financing bound up with housing is a very important element in that type of financing. On the other hand, there is some movement towards checking accounts which are at the other end of the scale with some of the credit unions coming close to operating demand deposit businesses with a fairly full checking service. Is the movement going along both these fields, that is the trust companies developing as a specialized service on the one hand or do you think its destiny is in the short-term finance end of the scale? Is there a steady increase in the number of unions operating checking accounts and the turnover in these accounts?

MR. CHARTONNEAU: Well, sir, firstly that in our Act the deposits

account and the withdrawal of same we refer to them in Saskatchewan as "orders negotiable by endorsement" and these are in the deposit accounts. There is a trend to have this type of service offered in the smaller communities particularly and I think a marked increase is particularly where the credit union is located in a community where there is not this type of service, where there is no comparable type of service available.

COMMISSIONER MACKINTOSH: Namely, where there is no branch bank.

MR. CHARBONNEAU: I suppose this is what I mean.

COMMISSIONER MACKINTOSH: There is nothing wrong with that word.

MR. CHARBONNEAU: Oh no.

COMMISSIONER MACKINTOSH: They have amalgamations and large parts of the general organization which control a high percentage of the assets and have all the attributes of the credit unions.

MR. CHARBONNEAU: A pretty logical conclusion, sir. But further to your question there is an increase particularly in these areas on the one side. Now, on the other side the development towards long-term financing, this is another facet and a facet where it is turned over to our Co-operative Trust Company and there is a marked increase in this.

COMMISSIONER MACKINTOSH: May I ask a supplementary question? Would you find, for example, that in your Regina and Saskatoon unions, your big urban unions, this tendency towards operating from

account and the withdrawal of same we refer to that in [illegible] as "orders negotiable by endorsement" and these are in the deposit accounts. There is a trend to have this type of service returned to the smaller communities particularly and I note a marked increase is particularly where the credit union is located in a community where there is not this type of service, where there is no comparable type of service available.

COMMISSIONER MACKINTOSH: Merely, where there is no branch bank.

I mean.

COMMISSIONER MACKINTOSH: There is nothing wrong with that word.

MR. CHAIRMAN: Oh no.

COMMISSIONER MACKINTOSH: They are amalgamations and large parts of the general organization which control a high percentage of the assets and have all the advantages [illegible] the credit unions.

MR. OPPENHEIM: A pretty logical conclusion, sir. But I think to your question there is an increase particularly in these areas on the one side. Now, on the other side the development continues [illegible] finance. That is another factor and a lot more it is turned over to the [illegible] level urban community and there is a marked increase in this

COMMISSIONER MACKINTOSH: May I ask a supplementary question? Would you find, for example, that in your Federal and Saskatchewan unions, you [illegible] urban unions, this tendency towards more [illegible]

current accounts, is that as pronounced there as it is in the rural unions?

MR. CHARBONNEAU: If you are talking of particularly Regina and Saskatoon, sir, I would say that in proportion there are as many members that use these facilities of deposit accounts per the over-all membership as we do have in this rural community type of credit union.

COMMISSIONER MACKINTOSH: This then rules out the experience that the branch bank facilities are not available?

MR. CHARBONNEAU: Yes it does, sir. In these particular organizations this particular theory does not apply.

COMMISSIONER MACKINTOSH: It is then something less than lack of facilities?

MR. CHARBONNEAU: Yes. I think probably the main reason for the request by the members of these larger organizations is that if they are doing their borrowing and savings with the credit union and the credit union also offers the additional service of a negotiable order system many of the members feel that in order to concentrate their financial business in one organization they will take advantage of this service.

COMMISSIONER BROWN: I notice particularly in connection with Alberta Packers Commercial Union in Prince Albert where the average share per member is $5 which is the minimum and they paid the same rate of dividends and interest on deposits, 4 per cent,

current accounts. Is that pronounced there as it is in the rural unions?

MR. CHARBONNEAU: If you are talking of particularly Regina and Saskatoon, sir, I would say that in proportion there are as many members that use these facilities of deposit accounts per the over-all membership as we do have in this rural community type of credit union.

COMMISSIONER MACKINTOSH: This then rules out the experience that the branch bank facilities are not available?

MR. CHARBONNEAU: Yes it does, sir. In these particular organizations this particular theory does not apply.

COMMISSIONER MACKINTOSH: It is then something less than lack of facilities?

MR. CHARBONNEAU: Yes. I think probably the main reason for the request by the members of these larger organizations is that if they are doing their borrowing and savings with the credit union and the credit union also offers the additional service of a money order system many of the members feel that in order to concentrate their financial business in one organization they will take advantage of this service.

COMMISSIONER BROWN: I notice particularly in connection with Alberta Packers Commercial Union in Prince Albert where the average share per member is $5 which is the minimum and they paid the same rate of dividends and interest on deposits, 4 per cent.

which would indicate that everybody in that credit union which had a minimum $5 share would have the rest of it on deposit?

MR. CHARBONNEAU: In this particular credit union, sir, they do not have the negotiable order system. This happens to be an employee group of the Packers. They do not have a negotiable order system.

COMMISSIONER BROWN: They have all their money on deposit rather than in shares?

MR. CHARBONNEAU: Yes. I just do not have on hand the reason their board of directors have decided to do it this way. They evidently are using their deposit accounts as some sort of a term saving. This is about the only explanation that I can give.

COMMISSIONER GIBSON: Going back to Dr. Mackintosh"s questions about your loan structure and looking at this table in the annual report on credit unions on page 24 it shows the combined analysis of loans, namely, some 13 per cent land payments and mortgages, mortgages retired, 23.8 per cent buildings improvements, 21.6 per cent machinery, automobiles, trucks, repairs. Part of that would be, from what I take of what you said previously, medium, I imagine. Would you say that from these figures about one-half of your loans were not short-term loans. Is that a fair assumption to make-- medium-term rather than short?

MR. CHARBONNEAU: Well, in the land

[illegible]

union which had a uniform 35 share would have the rest of it on deposit?

MR. CHARBONNEAU: In this particular credit union, sir, they do not have the [illegible] order system. This happens to be in the [illegible] group of the Raiders. They do not have a [illegible] order system.

COMMISSIONER BROWN: They have all their money on deposit rather than in shares?

MR. CHARBONNEAU: Yes. I [illegible] do not have on hand the reason their board of directors have decided to do it this way. They are actually using their deposit accounts as some sort of a term saving. This, [illegible] about the only institution I can think.

COMMISSIONER [illegible]: [illegible] back to Dr. Mackintosh's questions about your loan distribution and looking at this table in the annual report on credit unions on page 14 it gives the combined analysis of loans, namely [illegible] per cent [illegible] and payments and [illegible] per cent building improvement [illegible] 21.6 per cent machinery, automobiles, and so forth. [illegible] of that would be, from what I make of what you said previously, anything I imagine. Would you say that from these figures about [illegible] of your loans are not short-term loans? Is that a fair assumption to make — [illegible] short-term than [illegible]?

MR. CHARBONNEAU: Well, in the last

payments and mortgages out of the 13 per cent, I do not have the exact breakdown, but it is fair to assume that even in some of these cases they are in the intermediate term up to the five years.

COMMISSIONER GIBSON: You said there were very few over five years?

MR. CHARBONNEAU: Yes.

COMMISSIONER GIBSON: What I was trying to get at was the difference in the short-term up to two and the five-year medium.

MR. CHARBONNEAU: I think your conclusion is correct, that possibly 50 per cent of our assets are in medium short-term and the rest are divided between the intermediate and long-term -- pardon me, the loaning arrangements.

THE CHAIRMAN: I notice a paragraph on page 32 about the Conseil Co-operation de Saskatchewan. Can you tell us something about that? Have they organized French speaking unions or are they more in the co-operative sphere than in the credit union sphere?

MR. CHARBONNEAU: To give the short reasoning behind this, sir, in other provinces the credit unions and co-operatives organized mainly around a French Canadian bond of association, have somehow seen fit and proper to maintain their own centrals and their educational vehicles etc. In Saskatchewan this is not the situation. We do have in the Credit Union League and belonging to the Credit Union League, the Credit Society and the Trust

payments and mortgages out of the 13 per cent. I do not have the exact breakdown but it is rare to assume even in some of these cases they are in the intermediate [illegible] for the five years.

[illegible] there were very few over five years?

[illegible] Yes.

[illegible]

[illegible] to [illegible] and the [illegible]

[illegible] in medium [illegible] term [illegible] between the [illegible] me, the [illegible]

[illegible] page 32 [illegible] organization [illegible] the co-operative [illegible] in the credit [illegible] system?

[illegible]

credit unions and [illegible] per cent [illegible] in the [illegible] Society and [illegible]

Company, many credit unions and "Case Populaires" which are organized amongst the predominantly French speaking people of our province. However, they do have the Conseil which in part does some of the educational work of this French speaking group, conducts the sessions etc. in the French language. However, this organization works very closely with the League and the Trust Company and the Credit Society. In fact, their present full-time secretary happens to be a director of the Credit Union League of Saskatchewan so in order that we do not have any split between French speaking and English speaking groups we have seen it to our advantage to get together.

THE CHAIRMAN: Would the Conseil have any particular control over unions?

MR. CHARBONNEAU: Definitely not, sir.

THE CHAIRMAN: It is more of an educational organization to deal with the French speaking part of the community?

MR. CHARBONNEAU: That is right, sir.

THE CHAIRMAN: In various ways, as I take it?

MR. CHARBONNEAU: Yes, they will do educational work for credit unions, for consumer co-operatives, for the producer co-operatives etc.

COMMISSIONER LEMAN: Mr. Neville, I don't know whether I should ask this question of you or Mr. Charbonneau but in the general subject of supervision -- and again perhaps I am asking one or more questions to which the answers could be found

in all the material which went with the brief -- I did study it but perhaps I have missed a few details -- is there in a sense conditions for belonging to the League by credit unions that enable the League to force their wishes on the credit unions or is it purely persuasion that has to do it? Is there any real authority in the League?

MR. NEVILLE: I should think we would have to say that the League is a voluntary association of credit unions and it would have to be done by means of persuasion. And we do, of course, attempt to find some uniformity in practices and procedures by persuasion. We have been quite successful with it.

COMMISSIONER LEMAN: But is there at least a threat of suspension or removal from the group?

MR. NEVILLE: No, I think probably sir, we should outline at this point that the League has no supervisory power as such over the credit unions. We are in essence a creature of the credit unions to provide a type of service for them that they are not able to provide individually and therefore our working field force does have some persuasive power in attempting to improve the calibre of operations etc., and if we should find some irregularities in operations we immediately have access to and good working relationships with the supervisory authority in the government where they deal with many, many operations and we immediately bring this to the attention of the supervisory authorities, the

credit union auditor of the government, and they immediately are visited wherever a problem may exist.

THE CHAIRMAN: I think at the present time we will have a short recess of about 10 minutes. You gentlemen have been answering a great many questions.

--- Recess.

MR. NEVILLE: Mr. Chairman, in addition to the people I introduced this morning I wonder if I might introduce an additional friend of ours, Dr. B.N. Arnson, Deputy Minister of Co-operation and Co-operative Development.

THE CHAIRMAN: We will now resume.

COMMISSIONER LEMAN: Just before we recessed, Mr. Charbonnneau, we began to talk about the element of supervision. As I understand it you do not feel that that is primarily the role of the League at all. Do you feel there might be a trend in that direction, though?

MR. CHARBONNEAU: I think there might be a trend in this direction in the future if in achieving some better uniformity of operations on forms and this sort of thing, perhaps interest rates, but it is nothing that we have contemplated in the immediate future.

COMMISSIONER LEMAN: Now, I understand that the government has a supervisory staff. Can you tell us a little more about how extensive that staff is?

Does the League feel that it is sufficient now? There are a large number of unions here to audit and keep track of. Do you feel it is adequate now?

MR. CHARBONNEAU: To answer your question directly, sir, the League does feel that at the present time we do have a very adequate supervision staff. I do not know the exact number of people on the government supervisory staff, we do have the director of the audit department here and he probably could give us the exact number of people employed. However, in explaining the reasons why we feel the supervision is adequate it is mainly because we have two areas of supervision. One is the area in which the provincial government takes part in that they supervise all credit unions and their main concern has been now as in the past a close supervision of the loaning operations of the credit unions and then the general management of the credit unions.

Our Act does require that a credit union which has assets in excess of $200,000 must have an audit by an independent audit firm, either a qualified certified public accountant or a chartered accountant. In all our credit unions when assets are in excess of $200,000 this is mandatory. They all have this type of supervision. The government audit staff in this case, in the case of credit unions of $200,000 andover, supervise the general loaning operations and the general management but the actual accounting and the verifying of the whole

mechanical operation is done by an independent firm of auditors. In the smaller unions our government auditors do perform a similar audit as would be performed by a chartered accountant or certified public accountant.

COMMISSIONER LEMAN: So in the year in which a credit union's assets begin to exceed $200,000 they have to employ an auditor?

MR. CHARBONNEAU: That is right.

COMMISSIONER LEMAN: Is it the practice of these auditors to send copies of their audit reports to the government supervisory people, or not?

MR. CHARBONNEAU: Yes,it is. All the auditors that are appointed, notification is given by the credit union for registration of the credit unions by the department and at that point there is an interchange of opinions between the auditor and the government and they do receive notice of all independent audits that are performed by credit unions.

COMMISSIONER LEMAN: But not the League, the League does not get notice?

MR. CHARBONNEAU: No we do not.

COMMISSIONER LEMAN: Would the League be interested?

MR. CHARBONNEAU: Not particularly at this stage. Because of the close relations and associations that we do have with the audit department if any irregularity or anything that the auditors feel should come to the attention of the League we are

immediately notified so we do not feel that we are missing anything by not having these audit reports.

COMMISSIONER LEMAN: How about the relationship, still in this field of supervision, of the mutual aid fund to the credit unions? Because of the services they perform it would seem that they should be entitled to any funds they require, should they not?

MR. CHARBONNEAU: Well, the mutual aid fund, of course, is an over-all provincial reserve that has a specific function in that it forms a sort of cushion and can only be utilized in the case where a credit union would find itself in the position of dissolution and would not have sufficient capital to pay out 100 cents on the dollar and in that case the assistance of the mutual aid fund is asked for.

The makeup of the mutual aid board is that of the five -man board of directors three are appointed by the Credit Union League and therefore these are directors of the League or people that the Board may wish to appoint who are in close contact with the operations of credit unions. One is appointed by the government and in this case happens to be the director of the audit department who at all times is conversant with the situation, the operational situation of all credit unions and the fifth member is an appointment by the Saskatchewan Co-operative Credit Society. So in essence the mutual aid board is always aware of the situations that exist in the

credit union because the people who are on the board of trustees happen to be the people whoare connected with credit unions in everyday operation.

COMMISSIONER LEMAN: Well, they are connected with specific credit unions, the trustees?

MR. CHARBONNEAU: Well,no, three are League directors so therefore, being directors of the League, are aware of the general situation of the credit union movement in the province.

COMMISSIONER LEMAN: Well, yes, generally acquainted with it. What I was driving at was that this sometimes incipient trouble can be detected through audit procedures etc., and I was wondering if for the protection of the fund and in the interests of the League if there was a system of formal reporting that would generate this sort of foresight?

MR. NEVILLE: I think you would have to say there is a form of informal reporting but it is a rather informal system.

MR. CHARBONNEAU: Yes, the informal reporting comes about by having a director of the audit service as a trustee of the mutual aid fund and at all meetings of this board he will bring forward any cases of credit unions that in his opinion after reviewing the audit reports will need assistance and that is the way we keep track.

COMMISSIONER GIBSON: These are surprise audits that the provincial people do?

MR. CHARBONNEAU: Yes, the provincial people do.

COMMISSIONER GIBSON: I am reading a report here. This is again a government report from the Department of Co-operation. I gather that the provincial inspector auditors do a great deal of educational work amongst the credit unions. The way I would read it, they make a point of moving around and paying some visits that are not so much audits as just seeing how things are going. They attend the annual meetings and this sort of thing. This is a fairly important function, is it?

MR. CHARBONNEAU: I think we must say that they do perform some type of an educational function in that they make it a practice after an audit to arrange a meeting with the board of directors and the committees to review the audit and to give, in our opinion, some guidance and instruction as to how the loaning operations, or possibly in another area, how the operations can be improved. Many of the auditors make it a point to attend as many annual meetings as they can, but this is not a prime function. They do attend annual meetings if and when they do happen to be in an area during an audit and an annual meeting takes place. They do not make necessarily social calls, but on their way through, if they are going to a particular credit union for audit and they happen to, because of necessity, drive through one or two towns where a credit union is located, they will stop in and generally enquire about the over-all operations; if there are any problems, and so on and so forth.

COMMISSIONER GIBSON: I am reading a report here. This is again a government report from the Department of Co-operation. I gather that the provincial inspector auditors do a great deal of educational work amongst the credit unions. The way I would read it, they make a point of moving around and paying some visits that are not so much audits as just seeing how things are going. They attend the annual meetings and this sort of thing. This is a fairly important function, is it?

MR. [illegible]: I think we must say that they do perform some type of an educational function in that they make it a practice after an audit to arrange a meeting with the board of directors and the committees to advise, out faults and to give them in our opinion, some guidance [illegible] as to how the lending restrictions, or probably the controls, how the conditions can be improved. Many of the auditors make it a point to attend as many annual meetings as they can. But this is not a primary function. They do attend annual meetings if and when they do happen to be in an area during the period when the annual meeting takes place. They do not make necessarily special calls, but on their way through, if they are going to a particular credit union for audit and they happen to, because of necessity, drive through one or two towns where a credit union is located, they will stop in and generally enquire about the over-all operations. If there are any problems, and so [illegible] to report.

COMMISSIONER GIBSON: So it is more than a checking system. There is a bit of preventive medicine about it, if you like?

MR. CHARBONNEAU: Yes.

COMMISSIONER BROWN: Could I ask one question about this mutual aid: I could not understand the references on page 29 of the Saskatchewan Credit Union's report which is Schedule D, where the Mutual Aid Board made two interest free loans which enabled two of the credit unions to dissolve without loss to the members. How does this work? Do the interest free loans get pre-paid from some source?

MR. CHARBONNEAU: Yes. What happens in most cases, when a credit union is about to dissolve, there is in all probability some loans still outstanding, and in order to expedite the dissolution, the Mutual Aid Board will advance an interest free loan to the credit union in order to pay the shareholders 100 cents on the dollar, and then will assume the book debts.

COMMISSIONER BROWN: In other words, it takes over the job of being a liquidator.

MR. CHARBONNEAU: That is right.

COMMISSIONER LEMAN: One more factor that may have some bearing on the supervisory system: There is some reference in the material given to us to the effect that there would be a time when perhaps there would be a joining of this federal -- I have lost my reference.

MR. CHARBONNEAU: The Canadian Co-operative

Credit Society?

COMMISSIONER LEMAN: Yes. Would that bring about a more systemized form of supervision, do you think?

MR. CHARBONNEAU: I would like to refer this question to Mr. Johnson, as he is the president of the Canadian Co-operative Credit Society.

MR. JOHNSON: Well, I don't think it is the intention, within the framework of the Canadian Co-operative Credit Society that supervision of the Canadian Co-operative Credit Society should reach down to the credit union level. The Saskatchewan Co-operative Credit Society, because of its membership in the Canadian Co-operative Credit Society, and because of the provisions of the Canadian Co-operative Credit Associations Act, is under some supervision by the Department of Insurance at Ottawa. This is a theme, I think, that will be developed to a much greater degree in the submission by the Canadian Co-operative Credit society, and I am not trying to dodge the issue, but I am suggesting this question might be better pursued at that time. I don't think that the general idea is that the supervision by the Department of Insurance at Ottawa should reach down to the local credit union level.

COMMISSIONER LEMAN: Because it would be impractical, or for other reasons?

MR. JOHNSON: I think it would be impractical.

COMMISSIONER HARROLD: I might follow that

with a general question which may or may not be related to supervision. In your annual r eport of the Credit Society on page 9 it refers to the Canadian Co-operative Credit Society and says:

"Four provincial financial centres, four commercial co-operatives, Co-operative Life Insurance, and Co-operative Fire and Casualty Insurance, comprise the membership of this national organization, which has continued to perform a useful service in facilitating the interchange of funds between the Centrals.

The advantages of being incorporated under Federal legislation are becomming more apparent. It is to be hoped that all centrals across Canada will soon be able to arrange their operations so that they can qualify for membership."

We have just been through British Columbia and Alberta, and I don't believe the Centrals there belong to the Canadian Co-operative Credit Society.

MR. JOHNSON: The Central in British Columbia belongs to it.

COMMISSIONER HARROLD: But not in Alberta?

MR. JOHNSON: Not as yet. There are certain provisions in the Act, which these centrals must comply with -- in the Canadian Co-operative Credit Associations Act -- before the Treasury Board will

approve them as members of the Canadian Co-operative Credit Society.

COMMISSIONER HARROLD: Maybe this is a question for Mr. Munro: What are the advantages you refer to in this paragraph?

MR. MUNRO: The advantages, sir, are that it gives us a broader type of legislation. In earlier days there were two schools of thought on it, but it was felt we would have a better standing and a more legal operation if we belonged to the Canadian Co-operative Credit Society; that was one of the reasons. Others, of course, would be -- and perhaps Mr. Johnson could go further on this -- that it is our opinion that the Canadian Co-operative Credit Society would act for the Dominion just as the Credit Society in Saskatchewan acts for the local credit unions.

MR. JOHNSON: I think what we mean here -- and I wrote this, I think -- is that the Canadian Co-operative Credit Society cannot hope to function properly and effectively without the support of all the Centrals across Canada. This is fairly obvious. We cannot perform a useful function for the credit unions and the Co-operative Movement across Canada without the support of all the Centrals in all the provinces. Does that answer your question, sir?

COMMISSIONER HARROLD: I think probably it does. You mention the interchange of funds between Centrals and so on, and this would be necessary to be incorporated under the Federal legislation in order

approve them as members of the Canadian Co-operative

[illegible]

[illegible]

question for Mr. Staples. What are the advantages

you refer to in this presentation?

[illegible]

It gives us a broader type of legislation. In earlier days there were two schools of thought on it, and it was felt we would have a better standing and a more legal operation if we belonged to the Canadian Co-operative Credit Society; that was one of the reasons. Others, of course, would be -- and perhaps Mr. Johnson could go further on this -- but it is our opinion that the Canadian Co-operative Credit Society would act for the [illegible] Credit Society on legislation [illegible] for the local credit unions.

MR. JOHNSON: I think that we -- [illegible] and I wrote this, I think -- is that the Canadian Co-operative Credit Society cannot hope to function properly and effectively without the support of all the Centrals across Canada. This is fairly obvious. We cannot perform a useful function for the credit unions and the co-operative movement across Canada without the support of all the Centrals in all the provinces. Does that answer your question, sir?

[illegible]

It does. You mention the [illegible] between Centrals and so on, and this would be necessary to be incorporated under the federal legislation in order

to do this; is that right?

MR. JOHNSON: The Canadian Co-operative Credit Society is a vehicle set up for that purpose, sir, and I think it is a vehicle for the purpose of interchange of funds between the various Centrals across Canada. There might have been other ways of doing it, but this seems to be the logical way as far as we are concerned.

COMMISSIONER GIBSON: It also has the effect of setting similar standards for each provincial Central throughout the country if they all join, doesn't it?

MR. JOHNSON: That is right.

THE CHAIRMAN: The next subject matter to be considered is the question of liquidity.

COMMISSIONER BROWN: There is one question I have on this matter of liquidity -- perhaps two or three questions: My first question is, are there any interlocking holdings of shares between the various credit unions?

MR. NEVILLE: What do you mean by that, sir? -- membership in different credit unions?

COMMISSIONER BROWN: No. Does one credit union have shares in another credit union?

MR. CHARBONNEAU: No; this is not the practice. The practice is that credit unions, if they do have surplus funds, ordinarily invest them either in shares or in deposits or in term deposits with the Central -- Saskatchewan Co-operative Credit Society.

COMMISSIONER BROWN: But not with one another?

MR. CHARBONNEAU: No. There may be in some locations, because of a short distance, they may find it convenient for strictly local arrangements or local convenience to work together, but not as shareholders of one another.

COMMISSIONER BROWN: On a deposit basis?

MR. CHARBONNEAU: Yes.

COMMISSIONER BROWN: And then, in maintaining their liquidity do any of the individual credit unions have lines of credit with the commercial banks, or do they only borrow from the Central?

MR. CHARBONNEAU: I think it is safe to say that the majority of the borrowings and their lines of credit is with the Central, mainly on the strength of the shares invested with the Central, but we do know there are a number of credit unions who also have, because of convenience and local arrangements, lines of credit with a local bank.

COMMISSIONER BROWN: That means that in large part they are dependent on the liquidity of Central?

MR. CHARBONNEAU: That is right.

COMMISSIONER BROWN: I notice on Central there is a list of investments, but there is no break-down as to maturities, and so forth. It would be a fast curve ball to throw at you right now to ask you to tell us what the maturity dates are, but I was wondering if you would file a supplementary

schedule giving us the investments broken down into, say, under one year, two to five years, six to 10 years, and over ten years?

MR. JOHNSON: I believe sir, I think I am right in saying that this information was filed with Mr. Mercure with supplementary information. This is part of the material which we forwarded just about last week, or something like that. You may have not received it, but I have a copy here, sir, of the maturity dates -- a list of the maturity dates and yield of all our investments. This is part of the information forwarded to Mr. Mercure, I think, after he went on this tour.

COMMISSIONER BROWN: Could you tell us roughly what proportion comes within one year?

MR. JOHNSON: May I refer this to Mr. Tendler; he is more conversant with this. Mr. Tendler is our treasurer.

MR. TENDLER: If I may, sir, just suggest in providing this information to Mr. Mercure we did not break it down. We provided him with a complete detailed list of our investment schedule as to maturities, etc. I would not want to hazard a guess as to what matures in the first two years, but I could have this information for you after lunch if this would be all right.

COMMISSIONER BROWN: Yes.

MR. TENDLER: You require, under one year; two to five; six to ten; and over ten. We can get that for you and have it available after lunch.

COMMISSIONER BROWN: Fine. In addition to this you have a line of credit with a chartered bank as well?

MR. JOHNSON: That is right.

COMMISSIONER BROWN: Have you found it necessary to approach the total of the limit?

MR. JOHNSON: No, we have never approached the total of the limit of our line of credit.

COMMISSIONER BROWN: You have never had a problem with this chartered bank?

MR. JOHNSON: Never. We have very excellent banks, sir.

COMMISSIONER LEMAN: May I ask a more general question on this question of liquidity. The adequacy of liquidity is something that is hard to gauge in a vacuum, and sometimes people have the tendency to base it on past experience, and a very fast growing organization such as yours has been in the last few years tends to be liquid because of new funds that keep coming into the system. Does the League or the Central, or the unions themselves -- do they test their liquidity? Have you run a series of tests as to what would happen to liquidity under various conditions such as a flattening out of the growth of the movement, a reduction -- all these possible future events that you can imagine? Have you tried to do liquidity tests under these various conditions?

MR. CHARBONNEAU: The answer to your question is that we have not tested on that basis. We do have an economist with the Credit Union Services

so this would [illegible] with a [illegible]

bank as well?

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

banks, etc.

[illegible]

general [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Branch of the government who continually does research; his department is doing research;on this very matter of liquidity, and I don't have any statistical data on this at the present time. However, we have been in contact with him, and are in continuous contact, and our liquidity requirements at the present time, in their opinion, are adequate, and I think we have to assume, based on our experience -- and may be this is, as you point out, not a true test -- but they are certainly testing this out, and we rely a great deal on the economist's decision in advising us as to whether or not the liquidity position is, in their opinion sufficient, and they have been advising us to date that, in their opinion, our requirements so far are O.K.

COMMISSIONER BROWN: One of the things that this commission is particularly interested in is the effect or otherwise of monetary policy on the various parts of the Canadian economy. Has this affected your liquidity position at all? When money gets tight do you find there is a slowing down of capital coming in, or an increased request for loans, or have you found yourselves in a position of not being able to satisfy such increased demands for short-term loans?

MR. CHARBONNEAU: The first part of your question was the effect on the over-all Canadian economy, and again I would ---

COMMISSIONER BROWN: No, no; I think you must have misunderstood me. This is what we are looking

Eraser of the government was continually [illegible] unceasing; his [illegible] daily, eventually giving very weather of [illegible] and I don't know any statistical data [illegible] however, we have been in contact with them and [illegible] continuing [illegible] and our [illegible] at the present time, in their [illegible] and I think we [illegible] - and may be [illegible] as you [illegible] what - but they [illegible] and we only a great deal [illegible] advising us as [illegible] the [illegible] position is, in their [illegible] that [illegible] been [illegible] requirements [illegible] are [illegible].

CONGRESSMAN [illegible] that this [illegible] interesting is the effect or otherwise of monetary policy on the various parts of the [illegible]. But this [illegible] gets [illegible] capital [illegible], or [illegible] or have you found [illegible] of not being able to [illegible]?

MR. [illegible]: [illegible] question was, the effect on the [illegible] economy, and [illegible] I [illegible].

[illegible] Mr. [illegible] I thank you.

[illegible]

for -- the effect on the various parts of it. My direct question is, to what extent has it affected your particular part of that? In other words, to what extent have the credit unions felt tight money, and how have they felt it?

MR. CHARBONNEAU: In our past experience we have found that the effect in the loaning operations of our credit unions has remained fairly constant in that in the charting of our loans dating back from, I guess, 1954, our ratio of loans -- in other words, our percentage of loans to the share capital available has not fluctuated a great deal. In the period of short money it would appear that the loaning volume was fairly constant. There was not a sharp rise.

COMMISSIONER GIBSON: To be more specific, there have been two periods in recent years when money was pretty scarce and tight: Late 1955 to early 1956, and again in 1959. Interest rates tended to be higher in those periods generally, and money tended to be harder to get generally. Was this evident or noticeable in the individual credit unions. Did they find it more difficult to make loans? Did their rates of interest to members increase? Was there any impact, in other words, of the tighter money situation?

MR. CHARBONNEAU: Well, I would like to answer part of that question and then defer the other part to Mr. Johnson if I may only to say in the 1955 - 1956 period I think the credit unions

[illegible]

direct question is, to what extent has it affected your particular part of trade? In other words, to what extent [illegible] and how has [illegible] felt it?

MR. CHAMBERLAIN: In our past experience we have found that the effect of the present operations of [illegible] has resulted [illegible] in trend in the [illegible] of our [illegible] dating back from [illegible] 1944, [illegible] ratio of loans -- in other words, our percentage of loans to [illegible] available [illegible] calculated [illegible]. The period of easy money it would appear that the loaning volume was fairly constant. [illegible]

SENATOR [illegible]: [illegible]

[illegible] have been [illegible] years that money was pretty [illegible]

[illegible]

MR. CHAMBERLAIN: Well, I would [illegible]

[illegible] other part to [illegible]

in looking back, their assets were relatively small and I don't know whether we would have a comparison at that time. However, in this rather tight money situation we found that the credit unions were concerned mainly with providing the credit needs of their immediate members and I think that experience has shown that we had enough money to do this but this is all the money w e had and we could only take care of the needs to the point where we had the appropriate savings to do so.

COMMISSIONER GIBSON: Did you vary your interest rates at all in circumstances like that?

MR. CHARBONNEAU: No, the interest rates were not changed.

COMMISSIONER GIBSON: Was it a little harder to get a loan in, let us say, late 1959 than it would be in late 1958, do you remember?

MR. CHARBONNEAU: Well, I suppose the circumstances might vary but I would say that in as much as the money was available ---

COMMISSIONER GIBSON: ... the credit standards did not change too much if the money was available.

MR. CHARBONNEAU: If the money was available.

COMMISSIONER GIBSON: And generally it was available?

MR. CHARBONNEAU: We found that in Saskatchewan it was available. Mr. Johnson, do you wish to comment?

MR. JOHNSON: I think Mr. Charbonneau has covered it very well. We must, I think, always recognize that we are operating within a capital which our people have made available to us and we cannot go any farther. During the period which we are speaking of particularly, 1959 -- or let us go back to 1958, I find that our loans in the Saskatchewan Co-operative Credit Society were based largely on the capital they had as security. There is practically no variation from 1955, 1956 and 1957. It dropped sharply in 1958. In 1959 there was a substantial increase.

I think we have to bear in mind here that the credit unions were growing rapidly during that period and this may not necessarily be attributable to tighter money policy but we find that our loans went up by approximately $1 million and then in early 1960 they dropped substantially again.

COMMISSIONER GIBSON: Would it be possible in 1959 that some of the people would find it hard to get loans elsewhere and get them from the credit unions?

MR. JOHNSON: I do not think that is generally true, sir. We advised the credit unions at that time of the condition of the money market and we asked them to be very careful in conserving their resources for their own members rather than to take on loans to people who were not able to procure loans from other sources.

has [illegible] it very well. We [illegible]. I [illegible], always recognize that we are operating within a capital which our people have made available to us and we cannot [illegible] further. During one period with the [illegible] of [illegible], 1945 [illegible] on [illegible] to back to [illegible] I [illegible] that our loans in the [illegible] Co-operative [illegible] may [illegible] largely on the [illegible] they had as security. There is [illegible] from 1945, 1950 [illegible] it [illegible] in [illegible]. In 1959 there was a substantial increase.

[illegible] to be [illegible] in the [illegible] which [illegible] that period and this may not necessarily be [illegible] to [illegible] money [illegible] out we [illegible] that [illegible] million and then [illegible] they [illegible] again.

COMMISSIONER [illegible]: Would it be possible [illegible] of the people would [illegible] it [illegible] to [illegible] from the [illegible]?

[illegible]: I [illegible] generally [illegible], sir. We [illegible] the credit unions at that [illegible] the money [illegible] [illegible] be very careful [illegible] their [illegible] their members [illegible] to make [illegible] loans [illegible] people [illegible] to [illegible]

THE CHAIRMAN: Are you limited in your loaning to your own members? May you only loan to your own members?

MR. JOHNSON: Oh yes, we may only loan to our members.

COMMISSIONER GIBSON: But some of your members borrow elsewhere as well as in the union?

MR. JOHNSON: Oh yes.

COMMISSIONER BROWN: How about co-operatives, did their loans increase during this period of tight money?

MR. JOHNSON: No, there is no indication here that they increased substantially for that reason.. Our loans to co-operatives fluctuate very, very widely, depending on the time of the year, depending on who is doing the borrowing and there is no substantial increase certainly that could be attributed to the tight money policy.

COMMISSIONER BROWN: I do not quite understand. You said depending on who is doing the borrowing.

MR. JOHNSON: Yes, in the Saskatchewan Co-operative Credit Society we loan our available funds to credit unions, consumer and producer co-operatives and we also do all the short-term financing for the Federated Co-operative which is a wholesale for our consumer co-operatives in the province of Saskatchewan except the amounts which they secure from the sale of securities. We do all the short-term financing for them and their require-

ments fluctuate very widely.

COMMISSIONER BROWN: If you could not meet their requirements they would borrow somewhere else?

MR. JOHNSON: No question of that, sir, because they do all their borrowing from us.

COMMISSIONER BROWN: I thought you just indicated that the Federated Co-op did borrow elsewhere?

MR. JOHNSON: No they do not. I am sorry if I left that impression.

COMMISSIONER BROWN: It was my misunderstanding.

THE CHAIRMAN: What about your line of credit with the chartered banks? Was that affected at all during the tight money period?

MR. JOHNSON: It appears that our borrowings from the banks in late 1959, in October of 1959, were at a fairly high level. However, in November and December of that year it was down to almost nil. I have not got the breakdown of the actual borrowings by member organizations of that period. In September we owed the bank $3 million, in October we owed them $4 million, in November we owed them $100,000. I don't know just what that means.

I cannot feel that this indicates that this was affected in any way by our requirements for funds because of a tight money policy.

THE CHAIRMAN: I was just wondering whether the bank was not able to continue such a general line of credit as a result of the tight money policy

and whether that was reflected in your operations as it might have been in the case of all sorts of other borrowers. Have you the figures following that? That is 1959.

MR. JOHNSON: Yes.

THE CHAIRMAN: Have you got the 1960 figures there?

MR. JOHNSON: Yes, I have the 1960 figures here.

THE CHAIRMAN: Was there an increase?

MR. JOHNSON: They indicate that our borrowings from January, 1960 on through the year were in the neighbourhood of, except in two months, considerably under $1 million.

COMMISSIONER MACKINTOSH: What has been the trend in 1961?

MR. JOHNSON: The trend in 1961 for most of the year is that our borrowings are rather small in relation to our line of credit. When I say "small" the average borrowings are about $ 1 million at each month end.

COMMISSIONER BROWN: How about borrowings from other than the banks, street borrowings?

MR. JOHNSON: We do not do any street borrowing.

COMMISSIONER BROWN: You do not do any borrowing except from the chartered banks?

MR. JOHNSON: We have two sources, sir, of funds not from banks. One is the Saskatchewan Provincial Treasury who make a certain sum of money

available to us on a day-to-day basis and the Saskatchewan Government Insurance Office with whom we have a similar arrangement that makes certain sums of money available to us on a day-to-day basis.

COMMISSIONER BROWN: Is this a regular line of credit? Do you know how much you can get and at what sort of interest rate?

MR. JOHNSON: We never know for certain how much of that money we are going to have from day to day because of the requirements of the Provincial Treasury.

COMMISSIONER BROWN: How high does it get?

MR. JOHNSON: $3 million is the maximum.

COMMISSIONER BROWN: Do you go up to this limit?

MR. JOHNSON: We do go up to that limit, yes.

COMMISSIONER BROWN: Was this the means by which you paid off the bank loan? Have you got the figures to show whether that went up at that time when the bank loan got down to $100,000?

MR. JOHNSON: Yes, I have the figures, sir. We find that at the time, in October, 1959, we had borrowings from these two sources of $1,925,000. In August of that year we had borrowings from that source of $3,950,000.

COMMISSIONER BROWN: So that went down at the same time your bank loan went down?

MR. JOHNSON: No, it went up. In November

of that year we find that our borrowings from sources other than the bank were $3,550,000.

COMMISSIONER BROWN: That is how you were able to reduce your bank loan?

MR. JOHNSON: Yes, this is right.

COMMISSIONER BROWN: What sort of interest do you pay on that?

MR. JOHNSON: It has been fluctuating over the years depending on the price of money on the market but at the present time we are paying an average of 4 per cent.

COMMISSIONER BROWN: Is it related to the bank rate or how is it arrived at?

MR. JOHNSON: It's very loosely related to the bank rate, sir. It is negotiated yearly.

COMMISSIONER BROWN: It does not change during the year?

MR. JOHNSON: No, it does not change during the year. This is done by Order-in-Council, sir, by the Provincial Government and this Order-in-Council is renewed each year.

COMMISSIONER BROWN: And the rate does not fluctuate during the year?

MR. JOHNSON: No.

COMMISSIONER BROWN: And any other requirements that you have you borrow from the banks for the rest of your requirements?

MR. JOHNSON: That is right.

COMMISSIONER MACKINTOSH: Might I ask you what occasioned your communication to the local

credit unions informing them that money was tight? Was this just a general public attitude or had you already felt that money was tight and felt you needed to fend off an increase in loans?

MR. JOHNSON: When we were advised, sir, by our banks that certain restrictions were being placed on the banks for the loaning of money we wrote a letter to all our credit unions advising them that they could expect certain restrictions to be placed on the Society and that these restrictions would necessarily have to be passed on to the credit unions. At the same time in this letter we advised them to use judiciously the funds they had at their disposal for the use of their present members.

COMMISSIONER MACKINTOSH: In other words just an extension of the communication from the Bank of Canada and the chartered banks?

MR. JOHNSON: Yes.

COMMISSIONER MACKINTOSH: Thank you.

COMMISSIONER LEMAN: Again in the report of the Credit Society on page 16 there are some interesting graphs there showing a quite steady growth in share capital but the line on loans granted is more broken. There is no evidence in 1956 that loans granted would have been reduced at any point but between 1957 and 1959 there is a fairly serious jog there. While we see the graph on share capital, we do not see a graph on deposits.

MR. JOHNSON: We eliminated that from the report this year for space purposes. We have had it

credit unions informing them that money was tight? Was this just a general public attitude or had you already felt that money was tight and felt you needed to fend off an increase in demand?

MR. JOHNSON: What we were advised, sir, by our banks that certain restrictions were being placed on the banks for the flotation of money. We wrote a letter to all our credit unions advising them that they could expect certain restrictions to be placed on the Society and that these restrictions would necessarily have to be passed on to the credit unions. At the same time [illegible] letter [illegible] them to use judiciously the funds they had at their disposal for the use of their present members.

COMMISSIONER McGREGOR: In other words just an extension of the tight money policy from the Bank of Canada and the chartered banks?

MR. JOHNSON: Yes.

COMMISSIONER LEMAN: Again on the growth of the Credit Society on page 11 there are some interesting figures [illegible] showing [illegible] growth in [illegible] out the line on loans is more broken. There is no evidence [illegible] loans granted would [illegible] but between 195[illegible] and 1959 there is a fairly good jog there. While we see the growth of [illegible], we do not see a graph on deposits.

MR. JOHNSON: The estimated [illegible]

in other years.

COMMISSIONER LEMAN: Well, that is another facet of what tight money might have done. Did you ever see a period of accentuated withdrawals or anything of that sort?

MR. JOHNSON: In explanation of this broken line, sir, in the loans granted graph these fluctuations downward are almost entirely due to reduced borrowings by the Federated Co-operatives for these periods.

COMMISSIONER LEMAN: They seem to be over periods of two years?

MR. JOHNSON: Yes, there is a decline for a two-year period and another decline for another two-year period. This depends on the type of programme that Federated Co-operatives have and the sale of securities.

COMMISSIONER GIBSON: Mr. Chairman, may I ask a few questions about loans? These are loans of the union itself. Earlier on you explained a little about the experience with loans. Would you give us some idea as to the trend? It is clear from the analysis that the loans in a farm community for purposes of equipment and buildings and that sort of thing are a very sizeable amount and still appear to be increasing. What about your consumer loans, personal loans, if you like? Would you say something about the trend there, the trend on the loans to farmers?

MR. CHARBONNEAU: Firstly, sir, the trend

is certainly -- in proportion to the loaning money available the consumer loans, I think, are generally -- the percentage is staying fairly level except for the fact that as we have more money available there are more consumer loans being made.

COMMISSIONER GIBSON: By "consumer loans" we are talking about the same thing, are we -- automobile, personal finance, etc.?

MR. CHARBONNEAU: Yes. We also consider in this category the loaning for used farm machinery. This is also considered in our categories as a type of consumer loan and the trend is that the credit unions are attempting to make more of these loans. However, in order for the amount to accelerate at the same rate as our available money we have to increase the number of loans a great deal. Now, they are increasing in number. However, in amount it does not show an appreciable increase.

COMMISSIONER GIBSON: Is partly the reason for this that you have such a large proportion of rural unions which are in effect servicing farmers?

MR. CHARBONNEAU: That is right.

COMMISSIONER GIBSON: So in looking ahead one of the principal factors here would be how much you grow in the urban areas determining whether that percentage would change much?

MR. CHARBONNEAU: I think this is a fair statement.

COMMISSIONER GIBSON: What about your interest rate structure? The government report shows

quite a wide variation in interest rates, as I recollect it, and I suppose this reflects the fact that most of your loans are of the somewhat larger type rather than the small household loans? In other words, you seem to make a good many loans around the rate of 6 per cent or 7 per cent, and not so many as the other credit unions at the 1 per cent per month basis, which I take it would apply mainly to the personal loans, would it?

MR. CHARBONNEAU: I think it is fair to say that most of the rural community credit unions charge rates varying between 6 per cent and 9 per cent. The rate of 1 per cent per month is found predominantly in the industrial and associational type credit union.

COMMISSIONER GIBSON: And loans to farmers for land and equipment and that sort of thing -- these are usually 6, 7, 8 and 9 per cent?

MR. CHARBONNEAU: That is right.

COMMISSIONER GIBSON: What would cause the variation there? Would there be variation in the kind of risk or between the credit unions?

MR. CHARBONNEAU: It varies between credit unions, and the basis for a credit union is to operate at an interest rate that will give them sufficient money to pay back a reasonable return to the shareholders and, of course, in some smaller communities where the loaning volume may be less, they could find, because of circumstances, they have to run at 8 per cent, where a comparable credit union in another

[illegible] portion of the interest rates, as I recollect it, and I suppose this reflects the fact that more of your loans are of the somewhat larger type rather than the small household loans. In other words, you tend to make a good many loans around the rate of 6 per cent or 7 per cent, and not so many as the other credit unions at the 1 per cent per month rate, which I take it would apply only usually to the personal loans, would it?

MR. CHANDONNET: I think it is fair to say that most of the rural credit unions charge rates varying between 1 per cent and 9 per cent. The rate of 1 per cent per month is found predominantly in the industrial and associational type credit unions.

COMMISSIONER [illegible]: For loans to farmers for land, you are saying about the same thing -- these are usually 6, 7, or 9 per cent?

MR. CHANDONNET: That is right.

COMMISSIONER [illegible]: What would cause the variation there? Would there be variation in the kind of risk or between the credit unions?

MR. CHANDONNET: It varies between credit unions, and the reason for a credit union to be charging an interest rate is to give them sufficient money to pay their expenses and to set up their reserves and, of course, in some smaller communities where the lending volume may be less, they could find, because of circumstances, they have to run at 9 per cent, whereas a number of credit unions in general

area, because of the larger volume, can loan at 7 per cent or 7½ per cent. This is determined by the individual credit union.

COMMISSIONER GIBSON: Efficiency in operation has a lot to do with it. I notice there is a lot of variation in the loan rebates: A lot of the credit unions don't seem to give many, and some do. Would it be true in these rural unions there are not many rebates?

MR. CHARBONNEAU: Yes, the predominance of rebates are in the credit unions that charge the 1 per cent per month or a comparable rate varying from 3/4 of 1 per cent to 1 per cent. I think an analysis would show that the majority of the interest rebates are in this type of credit union.

COMMISSIONER BROWN: In paragraph 48 of your brief you refer to the fact that the Credit Union Act provides that no loan be made to finance operations of a businessman who is a member if his assets before the loan is made exceed $100,000. We have been told as we go across that the economic size of farms is increasing, and the minimum is where the assets are going to run around $50,000. So, presumably, there are farmers with assets of more than $100,000 who would be members of a credit union. Why is there this differentiation between the farmer who may have assets of $100,000 and the businessman who may have assets of $100,000.

MR. CHARBONNEAU: This probably could be very inaccurate -- I hope not -- but in Saskatchewan

I have some doubts. I know there would be some farmers, with assets in excess of $100,000. I would say that certainly the large preponderance of farmers in Saskatchewan would have assets of less than $100,000, and I think we would find it is the smaller farmer who makes the more use of the credit union, and I think we can say we don't have a large preponderance of large farmers who would utilize the credit unions for borrowing purposes.

COMMISSIONER BROWN: I was trying to get the philosophy behind this restriction.

MR. NEVILLE: I think in my position, and in my practice as a solicitor, I have very few farmers who have to pay estate tax on their estate.

MR. JOHNSON: May I suggest the philosophy here, sir, is largely due to the rural development of our credit unions. Our credit unions were developed in farming communities, and I think the trend still is to think of credit unions as being largely a rural type credit union serving the farming community. This is the real philosophy behind this, and we never quite got away from it.

COMMISSIONER BROWN: Have you ever found this inhibited your operations at all -- this restriction?

MR. NEVILLE: That is, the restriction on businessmen?

COMMISSIONER BROWN: Yes.

MR. CHARBONNEAU: May I say that the philosophy of the credit union in its proper sense

was mainly to take care of the needs of the individual credit union member, and although in some cases credit unions do deal with business people it has never been the theory or the philosophy that the credit union should go into the business loans per se. These mainly are -- the business term, I guess, would be, one-man or one-horse operations -- an individual businessman who may operate a small store or a small machine shop or something of this nature in a community. Mainly the credit unions in having this in the Act are making it possible to deal with this person as an individual even though he may own a business, and we have found in general practice that there are very few businessmen in our small communities that would have assets of $100,000. Of course, our Act does not permit credit unions to deal with corporations. They are mainly businesses of one or two partnerships -- of this nature.

COMMISSIONER BROWN: A businessman with this type of assets would probably get his financing elsewhere?

MR. CHARBONNEAU: Oh, very definitely.

COMMISSIONER BROWN: I was trying to find out what the philosophy was behind it. One thing I noticed was, in the Credit Society, the credit committee reviewed 1900 odd loans at 32 meetings; it is on page 3. What sort of opportunity do you have to evaluate these loans -- because this works out at about 60 per meeting.

MR. JOHNSON: This picture is just a little

credit union members, and although in some cases credit unions do deal with business people it has never been the theory or the philosophy that the credit union should go into the business loans per se. These mainly are -- the business term, I guess, would be, one-man or one-horse operations -- an individual businessman who may operate a small store or a small machine shop or something of this nature in a community. Mainly the credit unions in having this in the Act are making it possible to deal with this person as an individual even though he may own a business, and we have found in general practice that there are very few businesses in our small communities that would have assets of $100,000. Of course, our Act does not permit credit unions to deal with corporations -- they are mainly businesses of one or two partnerships -- of this nature.

COMMISSIONER TRENT: A cooperative of this type of assets would probably be in that limitation?

MR. [illegible]: Oh, very definitely.

COMMISSIONER BROWN: I was trying to find out what the philosophy was behind it. One thing I noticed was, in the Credit Society, the credit committee reviewed 1900 odd loans at 52 meetings; it is on page 3. What sort of opportunity do you have to examine these loans -- because this works out at about 40 per meeting.

bit distorted from that point of view, sir.

COMMISSIONER BROWN: That is the trouble with statistics.

MR. JOHNSON: Yes. In making loans to credit unions -- and there are a large number of them -- where share capital in the Credit Society is offered as security, management has authority to make those loans without reference to the credit committee and then report them to the credit committee periodically. These are fully secured loans, of course. We have the shares in the Credit Society as security, and there is no possibility of any losses. In making loans to co-operative associations we make several types of loans, of course. We set a line of credit for a co-operative organization, for inventory financing, perhaps, and they will draw on that line of credit from time to time during the year, and every transaction is considered on our records as a loan. In dealing again with other types of loans, that is, loans for expansion purposes, loans where we take mortgages, each and every one of these is carefully considered by the credit committee. This is how we are able to say that the credit committee has considered all these loans. They have actually considered them, although some of them actually have not had the careful consideration that an individual mortgage loan would have.

COMMISSIONER BROWN: So a lot of those would just be coming out of a line of credit

established?

MR. JOHNSON: Yes. This is particularly true of our large borrower -- the wholesaler, where they establish a very substantial line of credit with us and borrow throughout the year, and each one of these transactions on our records is considered a loan.

COMMISSIONER BROWN: Yes; your wholesale loans are, per loan, far greater than any other type?

MR. JOHNSON: That is right.

THE CHAIRMAN: We will now go on to liabilities.

COMMISSIONER LEMAN: I would like to ask a question just to understand what these gentlemen think the significance might be of the large increase in percentage of total assets that deposits represented in 1961 -- that increased considerably. Have you some idea why that happens? I think we touched on it a little earlier, but we didn't really exhaust the point.

MR. CHARBONNEAU: You are asking our opinion as to why the deposits have increased?

COMMISSIONER LEMAN: As a percentage.

MR. CHARBONNEAU: As a percentage?

COMMISSIONER LEMAN: Yes.

MR. CHARBONNEAU: I think it is safe to say that the main reason is that last year Saskatchewan suffered from quite a drought situation, and the availability of money and so on -- the farmers could see their wheat piles were dwindling, and as their

sale of wheat and so on was being made they were more prone to deposit money in their credit union knowing they would be needing some of those funds in the spring for seeding and for the continuation of their operation. I think many of the deposit funds that we have accumulated, particularly this last year, are strictly a term deposit. In other words, I don't feel they have sufficient money to invest. They know they are going to need this money, and they are leaving it there awaiting the need to dispose of it.

COMMISSIONER LEMAN: It is generally accepted that share investment is withdrawable too?

MR. CHARBONNEAU: Yes.

COMMISSIONER LEMAN: But is this notice to a union when it comes in the form of deposit rather than share investment -- do you take it as notice it will stick less?

MR. CHARBONNEAU: We take it certainly that when a member deposits money in a deposit account that this is what we term a call or demand money and that it is withdrawable and that the member is leaving it there strictly for a short-term period. We don't know to what extent deposits may or may not drop in the spring as the money situation develops. We have found there is a great turn-over in the deposit accounts, but looking at the average deposits in the credit union they seem to -- well, one replaces the other. We have not noticed an appreciable fluctuation in the total amount. This may happen in the spring,

as I have pointed out. We may find the trend may not be true. We may find there will be a fairly substantial drop in those deposits.

COMMISSIONER MacKEEN: A depositor can withdraw the total deposit under all conditions, or is he restricted, as in some provinces, to 75 per cent?

MR. CHARBONNEAU: No, a depositor may withdraw in full any amount he has on deposit.

COMMISSIONER MacKEEN: And the shares as well -- the amount of the shares?

MR. CHARBONNEAU: Yes. In the event that there was a total withdrawal, there are stipulations in the Act that the credit union may require a notice from the members of 90 days for the withdrawal of shares. This is a safeguard and a stipulation in the Act that we have found in practice has never had to be enforced.

COMMISSIONER MacKEEN: And there is nothing on deposits?

MR. CHARBONNEAU: I stand to be corrected: I think we do have a stipulation that the board may require a 30-day notice on deposits, but again this has never been enforced.

COMMISSIONER LEMAN: Would you say as the proportion of deposits to total money available to the credit union -- that therefore the liquidity reserve position would tend to be increased if more of the money was in the form of deposits than in shares?

MR. CHARBONNEAU: Yes, the liquidity position would.

COMMISSIONER LEMAN: Is there a mathematical formula? Is this systematic, or just a matter of judgment as you go along?

MR. CHARBONNEAU: The liquidity requirements are stipulated in our Act in that a credit union which has a negotiable order system must at all times maintain 20 per cent of its combined shares and deposits in a liquid form up to $1 million, and after $1 million it drops to 15 per cent. In the credit union that does not have a negotiable order system, they must have a liquidity position of 10 per cent.

COMMISSIONER LEMAN: But this mathematical formula is more related to the checking privilege than which proportion is deposits as against share capital?

MR. CHARBONNEAU: Yes.

COMMISSIONER LEMAN: You don't know of any mathematical formula for liquidity reserves related to changes in the proportion of deposits?

MR. CHARBONNEAU: No.

COMMISSIONER LEMAN: Really what I am trying to clarify here is this: What happened in Saskatchewan in 1961 for this system as such could be assimilated to a tight money situation, couldn't it? Money was tight because, as you say, the resources of the farmers -- they could see their cash resources going down due a bad crop etc., and that had the

COMMISSIONER [illegible]: Is there a mathematical formula? Is that the simple, or just a matter of judgement as you go along?

MR. CHAMPONSKI: The liquidity requirements are stipulated in our Act in that a credit union which has a regular line of credit with [illegible] maintain 20 per cent of its combined shares and deposits in a liquid form or 10 [illegible] [illegible] 5 million [illegible] [illegible] one of those [illegible] [illegible] system, they [illegible] [illegible]

[illegible]

COMMISSIONER [illegible]: [illegible] formula is more related to [illegible] than which [illegible] to [illegible] capital?

MR. [illegible]: Yes.

COMMISSIONER [illegible]: [illegible]

[illegible]

related to changes in the movement of deposits

MR. CHAMPONSKI: No.

COMMISSIONER [illegible]: [illegible] region, [illegible] here [illegible]. That happened in Saskatchewan in 1961 for this system [illegible] be computerized [illegible] [illegible] 1972. However [illegible]

of the farmers

[illegible] that [illegible]

tendency to keep more money in deposits rather than in shares -- less permanent investment -- and it did lead to withdrawals as the season advanced?

MR. CHARBONNEAU: Yes.

COMMISSIONER LEMAN: So, in a tight money situation did you see any such same trend when, instead of having a very localized shortage of money at that time, you have the same thing on a national basis?

MR. CHARBONNEAU: The same thing on a provincial basis?

COMMISSIONER LEMAN: Or on a national basis.

MR. CHARBONNEAU: We did not.

Mr. Chairman, I think Commissioner Leman raised the question a while ago with regard to deposits in the Credit Society. I have a sheet here now that gives some indication as to the trend of deposits during this period. I have finally found it. We find that the deposits in the Credit Society tended to increase from 1955 to 1961 consistently during each year. I will give you the figures for 1959. I can give the Secretary this information when we are through. We had in 1958 $182 million deposited and $180 million withdrawn during that year.

During 1959 we had $242 million deposited and $242 million withdrawn.

In 1960 we had $322 million deposited and $322 million withdrawn. I am just giving round figures.

tendency to keep more money in deposits rather than in shares -- less permanent investments -- and did [illegible] lead to withdrawals to the [illegible] extent?

[illegible]

COMMISSIONER LEWIS: So, in a tight money situation you saw [illegible] trend would [illegible] instead of having a very [illegible] shortage of money at that time, you were [illegible] a [illegible] banks?

MR. CUNNINGHAM: [illegible] commercial credit?

COMMISSIONER LEWIS: [illegible]

[illegible]

MR. CUNNINGHAM: [illegible]

[illegible]

raised the question with [illegible] with regard to deposits in the Growth [illegible] I [illegible] them now that gives some indication of [illegible] deposits during [illegible] it. We find that [illegible] Society headed [illegible] during each year. [illegible] 1960. I can give you [illegible] when we are [illegible] and 212 million [illegible]

Taking [illegible] we had [illegible] and $242 million withdrawn.

In [illegible] we [illegible] and $252 million [illegible]

COMMISSIONER BROWN: Is this in Central?

MR. JOHNSON: This is in Central, yes.

COMMISSIONER BROWN: Do all these branches clear through Central?

MR. JOHNSON: Yes, all those that have -- well, the credit unions, sir, all have current accounts with Central. They deposit a good deal of their temporary surplus funds in their deposit accounts in the Central.

COMMISSIONER BROWN: Let us use the word "cheque" as a simple word --

MR. JOHNSON: We are not allowed to, sir.

COMMISSIONER BROWN: We will use it. You use the other. And all cheques are cleared through Central?

MR. JOHNSON: They are, sir.

COMMISSIONER BROWN: Would this apply to a cheque which is drawn on a credit union and re-deposited in the same union?

MR. JOHNSON: No. The arrangement under the schedule which we negotiated with the banks several years ago is that every credit union that is operating a negotiable order system is required to carry a current account with the local bank on which all orders that are drawn at the local level are deposited for the account of the credit union and charged to the account of the credit union. Only cheques that find themselves out of the local community or negotiable orders, I should say, that find themselves out of the local community are cleared

through the Central.

COMMISSIONER BROWN: So that while this gives a fairly complete picture of the clearings it does not give the total picture?

MR. JOHNSON: It does not give a picture of the clearings that are done at the local level.

COMMISSIONER BROWN: In 1961 there was $384 million deposited and $382 million withdrawn.

MR. JOHNSON: Yes, this is the deposited capital in our deposit account during this period.

COMMISSIONER BROWN: The total of credit union deposits at the end of the year was something in the region of $13.9 million and the ordinary deposits in your Central were $6.8 million so that is a total of just over $20 million at the end of 1961 and the total clearings were $384 million. I am using several sources for this information.

MR. JOHNSON: On page 5 of our report I think you will find a picture of this Central clearing volume.

COMMISSIONER BROWN: That is right.

MR. JOHNSON: Which gives the figures relating to the items cleared to the Society by the banks, the items cleared to the banks by the Society and then a breakdown of the various types of items.

COMMISSIONER BROWN: This gives a total in and out of about $400 million?

MR. JOHNSON: Yes.

COMMISSIONER BROWN: This does therefore

indicate a turnover of about 20 times.

MR. JOHNSON: I have never figured it out, sir.

COMMISSIONER BROWN: Well, if the end of the year is roughly $20 million and you are clearing $400 million -- and this would not include local clearings?

MR. JOHNSON: It would not include the local clearings.

COMMISSIONER BROWN: So it would probably be more than 20 times.

MR. JOHNSON: Perhaps Mr. Tendler would care to comment on that. He is very close to this whole picture.

MR. TENDLER: Sir, I would not want to suggest how many more times over 20 but we must consider two other factors. Firstly, the one that you mentioned that the local credit union items negotiated within that credit union which are charged to the members' accounts but in addition a great number of the credit unions who have negotiable order privileges are situated in a town where a chartered bank is represented and carry an account with the chartered bank. And all those credit unions clearings in that area with the chartered bank or banks, are cleared there without going into the credit union so that is another factor which adds a tremendous volume.

You mentioned this figure from $20 million to $30 million. These two factors are very important. In fact it might be higher. We have no way of guessing

how much, referring to the number of times, we have but I would think some credit unions would have more items cleared locally, that is, items from the local branch of the chartered bank, probably two or three times more than the items we have.

COMMISSIONER MACKINTOSH: It must be a very lively account.

MR. CHARBONNEAU: I am speaking from experience of my local credit union which is a fairly large union. I think the information Mr. Tendler has related I think would also be pretty well true that where there is a credit union situated in the same town where there is a chartered bank that the volume of clearings would at least be equal in the bank to what there is through the Credit Society.

COMMISSIONER LEMAN: For the record, because we will read the record later and we have got to understand it -- I would like to get something a little clearer here. In the figures about deposits and withdrawals in the table which you gave here you were not referring specifically to the checking system?

MR. JOHNSON: No, I was not. Remember that there are 160 credit unions in the province approximately that are using negotiable orders. There are over 100 more who have no negotiable order system but also contribute to our deposit accounts.

MR. TENDLER: In our deposit accounts we have a number of co-operative organizations, including two insurance companies and the Federated Co-operative

Wholesale. The Federated Co-operative Wholesale's volume would account for possibly $100 million of that.

THE CHAIRMAN: Anything further on liability?

COMMISSIONER LEMAN: This may be a detail but what is the significance of the legal restriction for permitting a checking system only in unions that have share capital in excess of $100,000? Why is that?

MR. CHARBONNEAU: Well, this is, sir, more of an operational basis in that the registrar has the prerogative of issuing or turning down a negotiable order request and the figure $100,000 is a median figure in that most credit unions with assets of $100,000 are capable of employing full-time personnel and this is the reason that the registrar is very careful to not allow a negotiable order system in a credit union who may at a later date because of part-time employment or not being capable of managing the thing get depositors and the credit union into difficulties and the $100,000 is rather a median figure because it is felt that a credit union of this size ordinarily is capable of hiring personnel full-time and the other factor is that in allowing a negotiable order system the main reason is to give the full service to members. We do not feel it wise or judicious to allow a credit union to operate this type of service if they are not going to be able to give their members the service they are asking for at least comparable to what they can get anywhere

else.

THE CHAIRMAN: We shall now adjourn and resume at 2.15 P.M.

---(At12.15 P.M. the hearing adjourned until 2.15 P.M.)

--- On resuming at 2.15 P.M.

THE CHAIRMAN: The hearing will now resume.

COMMISSIONER LEMAN: If we might cover briefly one section of the presentation before us, could you tell us what is the proportion of savings that are insured under the life insurance system now in the organization?

MR. CHARBONNEAU: Well, we don't have the exact statistical breakdown of the actual proportion of the shares that are insured, except to state the maximum of insurance carried by a credit union is optional in that a credit union may choose to insure up to $1,000 of share capital per member or $2,000. We do know that there are only six or seven credit unions out of the total 280 that do not carry insurance, but as to the actual amount of shares that are covered by insurance, we don't have the statistical breakdown.

COMMISSIONER LEMAN: You are not prepared to make a guess?

MR. CHARBONNEAU: I don't think it would be accurate, so I hedge to make a guess at this stage.

COMMISSIONER LEMAN: There is no insurance

of deposits, is there?

MR. CHARBONNEAU: No, there is no credit life insurance on deposits as such.

COMMISSIONER GIBSON: On the subject of rates of dividend, I see your most common rate of dividend is 3 per cent, and I suppose the average would work out not very far from that?

MR. CHARBONNEAU: Yes, the average works out just a little higher than the 3 per cent, but very, very slightly.

COMMISSIONER GIBSON: This would be higher perhaps in some of the urban ones where you have higher interest rates on loans, and lower in some of the rural ones.

MR. CHARBONNEAU: Yes, the credit unions that charge a higher interest rate on loans are therefore able to return a higher return on shares invested, and this is exactly so.

COMMISSIONER GIBSON: I notice in this government report it states that the insurance which amounts to 12½ per cent -- I suppose this is in 1960 -- of gross revenue, and dividends on shares to about 26 per cent gross revenue: This is presumably for all the credit unions, as I read it. Now, that would mean reasonably that insurance was equivalent to about another 1 per cent as a rate of interest?

MR. CHARBONNEAU: The cost of insurance?

COMMISSIONER GIBSON: Yes.

MR. CHARBONNEAU: Yes, roughly it would be 1 per cent, both the cost of loan and life savings

of deposits, is there?

MR. [illegible]: No, there is no [illegible] life insurance on deposits as such.

COMMISSIONER GLASSON: On the subject of rates of dividend, I see your most common rate of dividend is 5 per cent, and I suppose the average would work out not very far from that?

MR. [illegible]: Yes, the average works out just a little [illegible] per cent, [illegible] very, very slightly.

COMMISSIONER [illegible]: [illegible] perhaps in some of the [illegible] interest rates [illegible] local ones.

MR. [illegible]: Yes, the credit unions that charge a higher interest rate [illegible] therefore [illegible] levied, and [illegible]

COMMISSIONER [illegible]: [illegible] government report it states [illegible] amounts to [illegible] per cent -- I suppose this is in light of gross revenue, the dividends on shares [illegible] 25 per cent gross revenue. This is presumably for all the credit unions, as I read it. Now, that would mean presumably [illegible] insurance was equivalent to about another 1 per cent on [illegible]

MR. [illegible]

MR. HARASYMCHUK: Yes, [illegible] be 1 per cent, [illegible]

insurance.

COMMISSIONER GIBSON: So that on a competitive basis you might say on the average you are counting in the cost of insurance at the average rate of 4 per cent that you are paying on shares -- including the cost of insurance?

MR. CHARBONNEAU: I am just trying to get this ...?

COMMISSIONER GIBSON: We got 3 per cent -- a little over 3 per cent in actual dividends?

MR. CHARBONNEAU: Yes.

COMMISSIONER GIBSON: Plus the cost of insurance, which looks something like 1 per cent -- if you do it that way?

MR. CHARBONNEAU: If you were to figure the insurance on the basis of an additional interest, if the insurance was not provided.

COMMISSIONER GIBSON: Yes. I was thinking of what you might call a competitive interest rate that you are offering for shares.

MR. CHARBONNEAU: I see.

COMMISSIONER GIBSON: I am thinking of the terms and opportunities people would have to use the money.

MR. CHARBONNEAU: Yes.

COMMISSIONER BROWN: As I understand it, the shareholders pay income tax on the just over 3 percent that they receive on their shares -- on their dividends -- the individual pays income tax?

MR. CHARBONNEAU: Oh, yes. The dividends

credited to a credit union member are subject to the same income tax regulations as would be on any other type of investment. They have to report it.

COMMISSIONER BROWN: He gets insurance in addition to this?

MR. CHARBONNEAU: Yes.

COMMISSIONER BROWN: Does he pay income tax on the value of that insurance?

MR. CHARBONNEAU: No, because the insurance is paid out of the earnings of the credit union before the allocation of dividends.

COMMISSIONER BROWN: But he is getting the benefit on which he is not paying income tax?

MR. CHARBONNEAU: Yes, I guess we would have to say that this is included in the service, and there are no regulations covering this at the present time.

COMMISSIONER LEMAN: Is it looked upon as a benefit for the unions, or primarily for the credit unions?

MR. CHARBONNEAU: No, the insurance was not started by credit unions as a benefit to the credit union. The whole basis for the life savings insurance feature in the first place was an incentive for the small saver to accumulate a savings up to $1,000 or $2,000. It was an incentive for savings. This was the whole basis of life savings insurance.

COMMISSIONER LEMAN: But it does help protect the union too?

MR. CHARBONNEAU: In life savings insurance

it doesn't really protect the credit union, because the credit union does not accrue any direct benefit from it.

MR. NEVILLE: It is not in the same category as insurance of loans.

MR. CHARBONNEAU: The loan insurance is a definite protection for a credit union because it is insuring a loan that is owing to the credit union, and should something happen -- in the event of death -- then the credit union is assured repayment of the loan. But in the matter of life savings, it is strictly an incentive for life savings.

COMMISSIONER MACKINTOSH: The shareholder would get 20 per cent tax allowance just as a shareholder in a corporation?

MR. NEVILLE: No, I don't believe he would.

COMMISSIONER BROWN: Because it is not from a corporation that has been subject to income tax.

COMMISSIONER MACKINTOSH: Oh, I see.

COMMISSIONER BROWN: When you come to the end of the year and you divide up the unallocated surplus, which is available to be divided up between four different categories -- dividends to shares, interest on deposits, rebates of interest paid, and carried forward to surplus -- what sort of policy is used to divide this up?

MR. CHARBONNEAU: The allocation of the earnings is wholly the prerogative of membership. The distribution of the earnings must be approved

by an annual meeting.

COMMISSIONER BROWN: I understand that, but is there some principle or philosophy behind the basis on which the division is made, or is each one purely ad hoc?

MR. CHARBONNEAU: The underlying philosophy is that the credit union is trying to operate its financial operations at cost to the members, and they will have so much earnings, deduct their operational costs, and will allocate the surplus, and this may be allocated in different manners. Some credit unions may choose to pay a patronage refund to the borrower, and some may not. This is the prerogative of the annual meeting.

COMMISSIONER BROWN: Yes, I understand that, but I wanted to find out whether there was a philosophy behind this division at all?

MR. CHARBONNEAU: No, I don't think there is a philosophy that breaks down the division. The overlying philosophy is that it is business at cost, and they will return the surplus to members. As to the type of return, this is determined by the members: They may choose to pay a higher dividend on shares, or an interest on deposits, or may choose to return a patronage refund.

COMMISSIONER BROWN: It depends whether the borrowers attend the annual meeting or the depositors?

MR. CHARBONNEAU: This could be so, but I think what happens in actual practice is that

there is a recommendation made by the board of directors, who have studied the operations of the credit union, and at the annual meeting they are in a position to recommend to the membership that, in their opinion, after studying the operation, the wise disposition of the money would be as follows.

COMMISSIONER BROWN: I notice the number of loans relative to the number of members varies considerably in the different credit unions. In large ones it seems to run about one to three. In some of them there seems to be more loans than members during the course of a year.

MR. CHARBONNEAU: I see, yes.

COMMISSIONER BROWN: It depends on which there are most of -- the allocation? Is that it?

MR. CHARBONNEAU: In some cases this could be so. However, I think the trend has been that the credit unions that are situated in urban centres, that are charging the higher interest rates on loans, will choose to return the patronage refunds in order to bring the actual cost of the loan down pretty well in line with what the other credit unions are doing.

COMMISSIONER BROWN: There is no pattern, then?

MR. CHARBONNEAU: No. In practice this is what happens.

COMMISSIONER GIBSON: It is more normally applied on the loan than on the dividends since you have already voted the rate of dividend?

MR. CHARBONNEAU: That is right.

there is a [illegible] ratio by the [illegible] of directors, who were familiar with the conditions of the credit union, and at the annual meeting they were in a position to recommend to the membership, what in their opinion, after studying the question, the wise disposition of the money would be [illegible]

[illegible] the number of loans relative to the amount of money [illegible] considerably in the different credit unions. In [illegible] it seems [illegible] times. [illegible] some of them [illegible] seems to be more [illegible] during the course of a year.

MR. HATTERSLEY: [illegible]

COMMISSIONER [illegible]: [illegible] there are more [illegible]

MR. HATTERSLEY: [illegible] so. However, I think the [illegible] credit [illegible] that are charging the highest interest [illegible] will [illegible] to [illegible] the patronage [illegible] before the annual meeting [illegible] in line with [illegible]

COMMISSIONER [illegible]: [illegible] should

MR. [illegible]: [illegible] in that [illegible].

COMMISSIONER [illegible]: [illegible] applied to the loan than [illegible] have already [illegible]

MR.

COMMISSIONER GIBSON: You do the two things at the same time -- vote the dividend and decide on the amount to go back?

MR. CHARBONNEAU: Yes.

COMMISSIONER LEMAN: Should we address questions on the Trust Company to Mr. Wagner?

MR. CHARBONNEAU: Yes, primarily Mr. Wagner.

COMMISSIONER LEMAN: Is my understanding right that the Trust Company was founded on the initiative partly of the credit union system in Saskatchewan?

MR. WAGNER: That is correct.

COMMISSIONER LEMAN: And it got a special charter and, as I see it, its powers of investment are much wider than those of other trust companies, or any trust company in Saskatchewan; is that so?

MR. WAGNER: That is not my understanding.

COMMISSIONER LEMAN: It is not your understanding that its investment powers are broader than those of trust companies in general?

MR. WAGNER: I don't think so.

COMMISSIONER LEMAN: Well, perhaps my understanding is wrong. I will have to check on it. Could you describe for us what the purposes of the Trust Company were initially when it was founded?

MR. WAGNER: Well, the initial purposes were to make long-term loans to credit union members and to give an estate service.

COMMISSIONER LEMAN: Does it operate outside the credit union system? It is not restricted to dealing

COMMISSIONER GIBSON: Not do the two things at the same time -- vote the dividend and decide on the amount to go back?

COMMISSIONER LEMAN: Could I ask another questions on the Trust Company to Mr. Walker?

COMMISSIONER LEMAN: Is my understanding right that the Trust Company was founded on the initiative partly of the credit union system?

MR. WALKER: That is correct.

COMMISSIONER LEMAN: And it got a special charter and, as I see it, the powers of investment are much wider than those of other trust companies, or any trust company in Saskatchewan. Is that so?

MR. WALKER: That is [illegible]

COMMISSIONER LEMAN: It is not your

than those of trust companies in general?

MR. WALKER: I wouldn't think so.

COMMISSIONER LEMAN: Well, perhaps my understanding is wrong. I will have to check on it. Could you describe. You said that the purposes of the Trust Company were initially when it was founded

were to make long-term loans to credit union members and to give an estate service.

Does it compete outside the credit union

with members, is it?

MR. WAGNER: No, but most of our business is done with members or members of members; our members are credit unions or co-operatives, and in order to make a loan to any individual that loan is on the recommendation of his local credit union. This is for trust loans. We have two kinds of loans: Trust loans and loans under the Family Farm Credit Act, which we administer for the Government of Saskatchewan.

COMMISSIONER LEMAN: And that gets out of the system?

MR. WAGNER: Oh yes, completely.

COMMISSIONER LEMAN: Outside of the loan business, it has business also that goes out of the system, doesn't it?

MR. WAGNER: Yes.

COMMISSIONER LEMAN: Administration of estates and administration of trust funds -- that gets out of the system?

MR. WAGNER: Yes.

COMMISSIONER LEMAN: Was that foreseen when the foundation of the Trust Company came about?

MR. WAGNER: I would think that was realized.

THE CHAIRMAN: Is this Trust Company incorporated under a special act?

MR. WAGNER: Yes.

THE CHAIRMAN: Not under the ordinary Companies Act?

MR. WAGNER: No.

THE CHAIRMAN: Are there any special differences between the provisions of this Act and the general act applying to corporations of this kind? Are special powers given that are not in the general act?

MR. WAGNER: I would think they are very similar, sir.

COMMISSIONER GIBSON: Is your main problem in the Trust Company to get enough money for the long-term loans? I understand you get more of a demand for them than you have funds to meet?

MR. WAGNER: This has been true up until the last two or three months.

COMMISSIONER GIBSON: It is not true any more?

MR. WAGNER: No, we have had an acceleration of investment in the last two or three months.

COMMISSIONER GIBSON: That is, investment on the part of the member credit unions and co-operatives?

MR. WAGNER: Member credit unions, principally.

COMMISSIONER GIBSON: In one of the documents -- I have forgotten what portion it was -- there was mention of your trying to raise longer-term money: Have you been reasonably successful in this way -- five and ten year money and that sort of thing?

MR. WAGNER: Yes.

COMMISSIONER GIBSON: You have been able to raise that kind of money in the market, or is this coming from members?

MR. WAGNER: This is most from members.

COMMISSIONER GIBSON: Or members of members?

MR. WAGNER: Yes, and members of members, and a little bit from the public.

COMMISSIONER GIBSON: There is nothing to restrict you from raising funds from the public in general?

MR. WAGNER: That is correct.

COMMISSIONER GIBSON: You have raised funds wherever you liked.

COMMISSIONER BROWN: On the question of the difference in the trust companies, if you look it up I think you will find a trust company incorporated under the Saskatchewan Act is not authorized to take securities for the issue of debentures and debenture stocks, and that is one place where your Act is quite different. There are no trust companies incorporated under this Act, in fact, because they are all in other provinces. If the Trust Company was incorporated under the Saskatchewan Act, it would be more restricted than under your Act. I think that is what the question was getting at.

MR. WAGNER: That could be. I would not know.

COMMISSIONER LEMAN: Are there any Saskatchewan incorporated trust companies? Perhaps there are none.

RM. WAGNER: I don't know of any.

COMMISSIONER LEMAN: There are not any,

are there?

MR. WAGNER: I do not think so.

COMMISSIONER BROWN: In your annual report you refer to part of an uncollectable loan being charged off to the statutory reserve and a certain amount being paid by the guarantor. Why didn't you ask the guarantor for the whole thing? Was this a special deal that was made?

MR. WAGNER: This was a special deal, yes.

COMMISSIONER BROWN: Is this the first time this has arisen?

MR. WAGNER: Yes.

COMMISSIONER BROWN: You usually have no trouble?

MR. WAGNER: I think this is the only loan that was guaranteed by the credit union.

COMMISSIONER BROWN: Mr.Chairman, I have one question also on page 7 of the report. I am just trying to reconcile some figures. In 1961 you show amount approved $1,588,000 and further down you show 182 loans having been approved with an average of over $10,000. That would come to $1,838,000. I was wondering which was correct. Was the average figure incorrect?

MR. WAGNER: Well, there is a certain amount of lapover. The difference would be in the processing.

COMMISSIONER BROWN: But these are both talking about things approved?

MR. WAGNER: Yes.

COMMISSIONER BROWN: One is the amount

approved, $1,588,000. You show 182 applications approved, just above that?

MR. WAGNER: Yes.

COMMISSIONER BROWN: The same figure, 182, appears farther down as approved by investment committee and this is the same 182 and you show an average amount of loans approved $10,100?

MR. WAGNER: This is the average amount of loans approved over the entire operation of the Family Farm Credit Act. It should not be under the 1961 operations. This was placed for information only to give an idea of the average size of the loans that have been made to date under the Family Farms Credit Act.

COMMISSIONER BROWN: So the $10,100 does not apply to the 182 figure above it?

MR. WAGNER: Not necessarily.

COMMISSIONER BROWN: Mr. Chairman, I do not want to ask all the questions here but on the 10-year 5 per cent guaranteed investment certificates I gather they may be redeemed at any time. Is this redeemed by the owner?

MR. WAGNER: Yes.

COMMISSIONER BROWN: That is, is really call money?

MR. WAGNER: Right.

COMMISSIONER BROWN: And on the 20-year investment certificate is it redeemed at the original issue price or the original price plus an interest factor?

MR. WAGNER: The original issue price plus an interest factor.

COMMISSIONER BROWN: What would those interest factors be? What is the complete factor if you held it at maturity, if you held it at $44.46 per hundred, if you held it for the 20 years, what is the interest rate? I have not a slide rule handy.

MR. WAGNER: 4½ per cent.

COMMISSIONER BROWN: A person is better off with a 5 per cent 10-year?

MR. WAGNER: Yes, except he has to re-invest his interest and in this other case we do it for him.

COMMISSIONER BROWN: If he cashes it in in the interval what does he get?

MR. WAGNER: I do not have the prospectus with me but I would be glad to supply the information.

COMMISSIONER BROWN: I am just curious.

MR. WAGNER: If you take $41.46 --

COMMISSIONER BROWN: $44.46.

MR. WAGNER: No, $41.46 and compound that at 4½ per cent it amounts to $100 in 20 years so that there is a $3 charge in there. $1.00 of this is administrative, that is, charged to the purchaser and $2.00 of that is commission on sales.

COMMISSIONER BROWN: Who would get the commission?

MR. WAGNER: The seller gets the $2.00 and the company gets the remainder.

COMMISSIONER BROWN: Might this be the

credit union Who gets the balance?

MR. WAGNER: It could be either the credit union or whoever made the sale.

COMMISSIONER BROWN: Can anyone make a sale?

MR. WAGNER: I would not say anyone but we have agents other than credit unions.

COMMISSIONER BROWN: These are licensed agents, are they?

MR. WAGNER: Yes.

COMMISSIONER LEMAN: Mr. Wagner, what would you say is the competitive position of the trust company for the members in getting long-term loans from it rather than some other available source? What are the principal factors -- the rate of interest, the amount of money they can get based on the security that they can offer or what?

MR. WAGNER: You mean how does our loan programme compare with other loan programmes?

COMMISSIONER LEMAN: Yes.

MR. WAGNER: I would say there is a reasonable comparison. Our rate under our Trust Company loans is 7 per cent including insurance. Our maximum term is approximately 15 years and there is no limit to the amount we can loan. It is only limited by the amount of security that is available.

COMMISSIONER LEMAN: Well, would you say that in general one of the members who is eligible for a loan from the Trust Company gets a better deal from you than he would get from some competitive source based mostly on the interest rate or the amount of

money he could get for the asset that is used as security or which is the more important factor, would you think?

MR. WAGNER: I would say generally we are very competitive. Does that give you an answer? I want to give you all the information you want.

COMMISSIONER LEMAN: Do you find people are eligible for getting a loan from you that could get it from somebody else in any case or does he always come to you because the deal you are able to make with him is much better than he can get elsewhere?

MR. WAGNER: It is not much better, in my opinion. Generally speaking our history up to date has been that we have allocated money to making loans that were requested from us.

COMMISSIONER LEMAN: How do you allocate your funds, that is, if there is more demand than what you can supply?

MR. WAGNER: Well, of course, this is always a prime problem in this business. Your investments might outstrip your need so you have a shortage and a longage, if you like. We deposit our money with our banking institution, the Credit Society surplus funds.

COMMISSIONER LEMAN: As I understand it there is more demand for loans than what you feel you can supply. Did I understand you correctly?

MR. WAGNER: That has been the case up until this last couple of months.

COMMISSIONER LEMAN: I ask you then how do you

allocate it? Is it on a first-come, first-served basis?

MR. WAGNER: Oh, yes, first-come, first-served, certainly.

COMMISSIONER MACKINTOSH: Do I take it from your remarks that the drain on your loan fund has eased so that the demand is not now outstripping your fund -- the easy money policy has permeated to that?

MR. WAGNER: We think, sir, this is a very temporary situation . Possibly it might be explained in this way, that up until the first of December our guaranteed investment certificates had a rate of 4½ per cent and they were not readily redeemable. In order to encourage more funds we have issued a guaranteed investment certificate at 5 per cent which is redeemable at any time. This has resulted in quite a lot of money, somewhere in the neighbourhood of $1 million coming in in the last couple of months and this has caused our present situation because our member credit unions and in turn their members have realized that there was not much use of making a demand on the Trust Company because they did not have any money and it is going to take us a little while to let them know that we do have a little now and we have no doubt when they do realize this we will again be short of loaning funds.

COMMISSIONER LEMAN: There is a statement on page 5 of the Trust Company Report which says that based on a survey of Co-operative Credit Unions there would seem to be a demand of the order of

$28 million in long-term credit in the system?

MR. WAGNER: That is correct.

COMMISSIONER LEMAN: And you are far from that level yet, are you?

MR. WAGNER: Oh yes.

COMMISSIONER LEMAN: So that this situation we are describing must be strictly temporary?

MR. WAGNER: Yes, I think I made that statement.

THE CHAIRMAN: On page 7 again in the middle of the page you say a total of almost $3,800,000 has been invested in guaranteed farm credit securities from the following, etc., and the total is $3,878,000. The government has contributed about half that, is that right?

MR. WAGNER: Yes.

THE CHAIRMAN: How does that tie in with the figures above -- applications received and approved? Is this something in addition to that? I am not quite clear the way it is set up here.

MR. WAGNER: No, under the Family Farms Credit Act this was legislation that was passed by the government ---

THE CHAIRMAN: This is all under that Act?

MR. WAGNER: Yes, this is all under that Act.

THE CHAIRMAN: You start with applications received and approved and the amounts. The amount, of course, here is $3.4 million and then you go down to this $3.8 million at the middle of the page which has been invested in guaranteed farm credit securities.

What is that?

MR. WAGNER: That is a special ---

THE CHAIRMAN: That is an additional amount, is it?

MR. WAGNER: That is right.

THE CHAIRMAN: In addition to the $3,432,000?

MR. WAGNER: No.

THE CHAIRMAN: Well, I did not think it would be. I thought perhaps there was some mistake. How is the $3,800,000 arrived at?

MR. WAGNER: Well, this is the amount that has been invested by credit unions, central co-operatives, the government of Saskatchewan and individuals in this Family Farm Credit Act scheme.

THE CHAIRMAN: Oh yes, I see.

MR. WAGNER: Now then, we use that money by making loans and at the time of this report we had loaned $3,432,000 of this amount.

THE CHAIRMAN: I should have understood that fact. I am sorry I wasted the time. I see now.

COMMISSIONER LEMAN: At the bottom of that same page, Mr. Wagner, there is the statement that the board has rescinded a previous requirement that credit unions invest with the company 10 per cent of the loans. This is at the bottom of page 5.

MR. WAGNER: Yes, that is correct.

COMMISSIONER LEMAN: The earlier requirement was a way to encourage funds to come to the Trust Company, is that it?

MR. WAGNER: That is correct.

COMMISSIONER LEMAN: And that proved less necessary?

MR. WAGNER: Yes.

COMMISSIONER LEMAN: Is that the only significance of it?

MR. WAGNER: That is the only significance of it.

COMMISSIONER BROWN: Now, if you need some money for mortgages I suppose you could call in some of the Saskatchewan Wheat Pool demand loans, could you?

MR. WAGNER: Yes, or we could borrow against our investment in the Credit Society.

THE CHAIRMAN: What is the relationship of the government in these Family Farm Credit loans? They put up a very large amount of money. Is there any arrangement whereby the government is obliged to put up money under any conditions?

MR. WAGNER: Yes, the government have agreed to invest an equal amount with what any other individuals or groups will invest.

THE CHAIRMAN: So that in order to force the government to put up more money you have to get other people to put up money and then they will match it, is that the idea?

MR. WAGNER: Correct.

THE CHAIRMAN: And what interest rate is charged on their advances? Is it the going interest rates that they charge on their bonds?

MR. WAGNER: No, the government with their

own funds purchase Family Farm Credit Act securities at $4\frac{1}{2}$ per cent.

THE CHAIRMAN: And these always run at $4\frac{1}{2}$ per cent, do they?

MR. WAGNER: That is a fixed rate, yes.

COMMISSIONER GIBSON: Of these guaranteed investment securities which the November 30, 1961 statement shows at over $1 million, some of these are payable on a fixed basis in the future and others are payable on demand sale, are they?

MR. WAGNER: Well, actually they are a 10-year investment certificate.

COMMISSIONER GIBSON: But they have the option that they can be paid on demand?

MR. WAGNER: That is correct.

COMMISSIONER GIBSON: They are like the one federal government issue of savings bonds or the Saskatchewan government?

MR. WAGNER: Very similar.

COMMISSIONER GIBSON: Is there any limitation on the amount of these you may issue?

MR. WAGNER: Oh yes, we are subject to the regulations of the Securities Board here in Saskatchewan, the Co-operative Securities Board.

COMMISSIONER GIBSON: The question I am getting at is that these are term securities but they can be called and you can ask for your money back any time?

MR. WAGNER: That is right.

COMMISSIONER GIBSON: What is your thinking

own Funds purchase Family Farm Credit Act securities at 4½ per cent.

THE CHAIRMAN: And these always run at 4½ per cent, do they?

MR. WAGNER: That is a fixed rate, yes.

COMMISSIONER GIBSON: Of these guaranteed investment securities which the November 30, 1961 statement shows at over $1 million, some of these are payable on a fixed basis in the future and others are payable on demand [illegible], are they?

MR. WAGNER: Well, [illegible] they [illegible] 10-year investment certificates.

COMMISSIONER GIBSON: But they have the option that they can be paid on demand?

MR. WAGNER: That is correct.

COMMISSIONER [illegible]: The same [illegible] the [illegible] federal government [illegible] of [illegible] [illegible] [illegible] guaranteed investment?

MR. [illegible]: [illegible].

COMMISSIONER GIBSON: [illegible] there any limit [illegible] on the amount of these you may issue?

MR. WAGNER: Oh yes, we are subject to the regulations of the Securities [illegible] here in Saskatchewan, the Co-operative Securities Board.

COMMISSIONER GIBSON: The essential [illegible] [illegible] is that these are [illegible] securities but they [illegible] be called and you can ask for your money back [illegible] [illegible].

MR. WAGNER: That is right.

on this? Do you keep revolving a certain proportion of these?

MR. WAGNER: Actually in our history thus far there has been very, very little redemption of securities -- I would say less than 1 per cent, quite a bit less than 1 per cent.

COMMISSIONER GIBSON: You think most of the people that buy them are really buying a long-term investment?

MR. WAGNER: That is correct.

COMMISSIONER GIBSON: And they are not putting in short-term money to get a long-term interest rate, in other words?

MR. WAGNER: That would be the general rule, yes.

COMMISSIONER BROWN: You have only had these since the first of November.

MR. WAGNER: That is true but we are basing our reasoning on our old securities that still bear interest at 4½ per cent and we have had very few applications for any redemption of those. These were not quite as liquid as this new one. We are not looking for any difficulty although we have prepared for it; we have set up a 20 per cent reserve. That is, we are only going to loan to 80 per cent.

COMMISSIONER BROWN: So you are loaning it out on a long-term basis?

MR. WAGNER: Yes.

COMMISSIONER BROWN: But it is call money?

MR. WAGNER: Really it is. It is a sort of

long-term call money. I don't know w hether this will be a new experience for us.

COMMISSIONER MACKINTOSH: Aside from your particular amount, aren't we getting an awful lot of this call money around the country -- I don't mean in Saskatchewan, but everybody seems to be dipping into this? The predictions as to its availability turn out to be wrong sometimes.

MR. WAGNER: There are quite a few factors that enter into this. As you will see by our report, we are a very rapidly growing trust company, and this is one factor that enters into it. Another is that we are well acquainted with the people we are doing business with, and they understand our problem, and we work very closely together and to the uninitiated this would be a little hard to understand.

COMMISSIONER GIBSON: Why do you give them this privilege -- why don't you pay them half of one per cent more?

MR. WAGNER: We believe we can receive a greater investment in this way.

COMMISSIONER BROWN: How do these essentially differ from your demand loans on your balance sheet?

MR. WAGNER: We have a guaranteed pass book account service and this, of course, is purely call money.

COMMISSIONER BROWN: What rate does that draw?

MR. WAGNER: $3\frac{1}{2}$ per cent up to $100,000.

There are different rates depending on the size of the account.

COMMISSIONER BROWN: On your estates, trusts and agencies you show a pass book certificate of $130,000, and I was looking for it on the opposite side: It belongs in with demand loans?

MR. WAGNER: The pass book certificate?

COMMISSIONER BROWN: Yes.

MR. WAGNER: Yes. Incidentally, we do not extend this service to credit unions. This is done by the Credit Society.

COMMISSIONER BROWN: These are all individuals, are they?

MR. WAGNER: We will put it this way: They are not members of the Credit Society. Here, for instance, when an individual requests to open a guaranteed pass book account we ask him if he is a member of a credit union, and we like to see him have in shares in his local union the maximum amount that is insured -- either $1,000 or $2,000. If he has that, we are willing to open a guaranteed pass book account.

COMMISSIONER BROWN: Say he is not a member of a credit union at all?

MR. WAGNER: Then there are no restrictions.

COMMISSIONER LEMAN: The Trust Company also has a bank line -- a credit line?

MR. WAGNER: Yes, with the Credit Society; we don't do any business with banks.

COMMISSIONER LEMAN: Not with the chartered

are different rates depending on the size of the account.

COMMISSIONER BROWN: On your estates, trusts and agencies you show a pass book certificate of $130,000, and I was looking for it on the opposite side: It belongs in with demand loans?

MR. WAGNER: The pass book certificate?

COMMISSIONER BROWN: Yes.

MR. WAGNER: Yes. Incidentally, we do not extend this service to credit unions. This is done by the Credit Society.

COMMISSIONER BROWN: These are all individuals, are they?

MR. WAGNER: We will put it this way: They are not members of the Credit Society. Here, for instance, when an individual requests to open a guaranteed pass book account we ask him if he is a member of a credit union, and we like to see him have an account in his local union the maximum amount that is insured -- either $1,000 or $2,000. If he has that, we are willing to open a guaranteed pass book account.

COMMISSIONER BROWN: Say he is not a member of a credit union at all?

MR. WAGNER: Then there are no restrictions.

COMMISSIONER LEMAN: The Trust Company also has a bank line -- a credit line?

MR. WAGNER: Yes, with the Credit Society; we don't do any business with banks.

banks.

COMMISSIONER MACKINTOSH: Why are you more virtuous than the others.

THE CHAIRMAN: The others had a good bank.

COMMISSIONER MACKINTOSH: I have a question or a comment, but it is not on the Trust Company. You were good enough to give us the maturities on the investments of the co-operative, and they are actually fairly long-term; they are not a particularly liquid list. I haven't done all the arithmetic, but I am sure from 1972 it constitutes the large portion of it. Aside from the amounts of 2-year loans, which seem fairly well distributed by months, the rest of it is fairly long-term investment, which I gather from some coupon rates has already been held quite a long time -- perhaps reluctantly.

MR. JOHNSON: I would ask our treasurer to comment on that, Mr. Chairman.

MR. TENDLER: In line with our investments, the comment I could make in this regard might clarify some of the discussion this morning. In addition to the investments which we have outlined there we have -- and here comes that bad word "call money" again -- a call on the Saskatchewan Wheat Pool of $4 million which we can withdraw at any time -- one day's notice. So, we can consider that part of our liquid funds, and this, we feel, pretty well stabilizes our position. The money on call with the Wheat Pool fluctuates from -- well, once in a while it is nothing -- from there to $5 million. We try

to keep sufficient in there to meet whatever needs we might have. This is the observation I have. I know 2/3 of our existing investment portfolio as of September 30 go in the long range over 10 years, and the other 1/3 are in the 1 to 10-year class. We have kept this in mind and any investments we have made this year, and especially municipals we try to hold them in the 1 to 10-year class. As you realize, we have sometimes some difficulty to hold high-grade investments in that category. This morning I wonder whether some people didn't get the wrong impression, getting back to this period of tight money: Our bank borrowings at the end of October were $4,442,000. They dropped to $ 1 million at the end of November. Conversely, our funds from the provincial government and government insurance office increased from $1,925,000 to $3,950,000. Someone observed possibly this is where most of the reduction came from. This is not so. We sold $2,700,000 worth of bonds that month. So that, almost 2 to 1 came as a result of decreasing our investment portfolio. So, I suppose you could say we felt the tight money policy and liquidated a certain part of our investments. Also, in the month we deposited in the Wheat Pool call money of $ 1 million, and we had nothing there at the end of October.

MR. JOHNSON: May I also, Mr. Chairman, in regard to liquidity -- and I am quoting from my manager's report to the Board of Directors after

to keep sufficient in there to meet whatever needs we might have. This is the observation I have. I know 2/3 of our existing investment portfolio as of September 30 go in the long range over 10 years, and the other 1/3 are in the 1 to 10-year class. We have kept this in mind and any investments we have made this year, and especially municipals we try to hold them in the 1 to 10-year class. As you realize, we have sometimes some difficulty to hold high-grade investments in that category. This morning I wonder whether some people didn't get the wrong impression, getting back to this period of tight money: Our bank borrowings at the end of October were $4,445,000. They dropped to $ 1 million at the end of November. Conversely, our funds from the provincial government and government insurance office increased from $1,925,000 to $5,950,000. Someone observed possibly this is where most of the reduction came from. This is not so. We sold $2,720,000 worth of bonds that month. So that almost $ 3 million came as a result of decreasing our investment portfolio. So I suppose you could say we felt the tight money policy and liquidated a certain part of our investments. Also, in the month we deposited in the Wheat Pool call money of $ 1 million, and we had nothing there at the end of October.

In regard to liquidity -- and I am quoting from my manager's report to the Board of Directors after

our year end November 30, 1961: It shows that out of $14 million loans in force there are $8 million due and payable in 1962.

COMMISSIONER MACKINTOSH: I am not offering any comment on liquidity because I don't know your business, but I got the impression this morning your investments were more liquid -- that your investments in this list were more liquid than they are. Perhaps I get a little confused with this borrowing back and forth between your various co-operative institutions. I don't know who finally meets the call.

MR. JOHNSON: May I suggest that the line of credit we carry with our bank or the cushion which we use in case of necessity in order that we are not put into a position where we have indiscriminate disposal of these long-term securities.

COMMISSIONER LEMAN: If this is classified information, perhaps you don't need to answer it, but in the liquidation of investments that you described, it was fairly sizeable over a quite short period, and could I ask you if you felt that the Government of Saskatchewan was helping to make the market?

MR. TENDLER: I cannot answer that. We disposed of them through three or four different investment firms, and whether the Government of Saskatchewan had something to do with making the market for those, I don't know.

COMMISSIONER LEMAN: They don't go direct to the Government?

MR. TENDLER: No, we purchase and sell most

of our securities, except for municipals, directly through the various investment dealers either in Regina or Winnipeg or Eastern Canada.

COMMISSIONER LEMAN: Why except for municipals?

MR. TENDLER: Many of these school units and hospitals market a debenture issue of $100,000 or $150,000 without going through an investment dealer. They do it on a local basis: One man will be hired to assist them in selling; they don't go into the investment dealer at all.

COMMISSIONER LEMAN: I was talking about the reverse process -- when you are selling.

MR. TENDLER: We go to an investment dealer when we sell.

COMMISSIONER LEMAN: Even on municipals?

MR. TENDLER: Oh yes, but there are very few occasions when we sell municipals. This is the part of our investment portfolio we feel we will be holding onto until maturity.

COMMISSIONER BROWN: Were these short-term bonds that you sold?

MR. TENDLER: No, I think you would have to classify some of them as medium term: There were a number of them around 10 or 12 years.

COMMISSIONER GIB SON: Did you have to sell them at a loss?

MR. TENDLER: No, we broke about even. If you go into the detail in our balance sheet, we sold some of them slightly in excess of the purchase

price and others slightly less, and it averaged out it didn't affect us greatly at all.

COMMISSIONER GIBSON: You did this anticipating that money may become tighter, and trying to keep as liquid as you could?

MR. TENDLER: Yes.

THE CHAIRMAN: I would like to put one question: Not being quite as immersed in financial affairs as some of my colleagues, I would like some guidance from you gentlemen on this. What do you say is the real distinction, if any, between the functions of a credit union and the functions of a bank? That is a question which has been raised at various times in various places, and I am talking about this from a practical point of view. I notice you have legal opinions from very eminent counsel to the effect that a credit union does not carry on the same functions as a bank for the various reasons that are given. Credit unions have developed a great deal in the last few years and their activities have reached a point of great magnitude, and I would like to have your views on this, because I understand you take the position you are not the same as a bank, and I would like to know how you make that distinction?

MR. CHARBONNEAU: Mr. Chairman, I think at the outset we should say that banking in the context you have put it would seem to be a very complex term, and our only views on this would be that we transact business only with our members, and the type of business that we transact is dictated by our

price and others slightly less, and it averaged out it didn't affect us greatly at all.

COMMISSIONER [illegible]: You did this anticipating that money may become tighter, and trying to keep as liquid as you could?

MR. [illegible]: Yes.

THE CHAIRMAN: I would like to put one question: Not being quite as immersed in financial affairs as some of my colleagues, I would like some guidance from you gentlemen on this. What do you say is the real distinction, if any, between the functions of a credit union and the functions of a bank? That is a question which has been raised at various times in various places, and I am talking about this from a practical point of view. I notice you have legal opinions from very eminent counsel to the effect that a credit union does not carry on the same functions as a bank for the various reasons that are given. Credit unions have developed a great deal in the last few years and their activities have reached a point of great magnitude, and I would like to have your views on this, because I understand you take the position you are not the same as a bank, and I would like to know how you make that distinction?

MR. CHARBONNEAU: Mr. Chairman, I think at the outset we should say that banking in the context you have put it would seem to be a very complex term, and our only views on this would be that we transact business only with our members, and the type [illegible] transact is dictated by our

members' wishes -- the services they ask us for. In terms of comparison, I believe that the over-all operations will in all probability, as we understand, be dealt with in the national brief submitted on behalf of all the credit unions.

THE CHAIRMAN: That may be, and perhaps it may be that you do not want to go into this fully here, but I thought I would like to have your assistance so far as you wished to go.

MR. CHARBONNEAU: We are not too sure in our minds -- as I say, this term "banking" is a very ---

THE CHAIRMAN: I am not saying we are sure. I don't know whether the experts on this Commission are sure; I haven't asked them in that way.

MR. CHARBONNEAU: I think we must say some of the services that credit unions are offering can be compared to the type of service that the banks are offering, and our stand, if we have such a thing, is that we are dealing with our members and only our members, and as far as banking functions are concerned we have no particular comment on this phase of it.

MR. JOHNSON: Perhaps I could make this comment, sir: The credit unions and the Saskatchewan Co-operative Credit Society operate only with the money supplied to us by our members and strictly within that area. I know nothing about banking; I have had no banking experience, but my understanding is that to an extent under certain circumstances banks

can create a certain amount of credit. We do not create additional credit under any circumstances over and above the actual funds that are placed at our disposal by our members.

COMMISSIONER MACKINTOSH: How about drawing on your line of credit in the chartered banks?

MR. JOHNSON: In view of the fact that these lines of credit are always more than adequately secured by securities that have been purchased with the funds that have been supplied to us by our members we still consider that we are within that area.

COMMISSIONER BROWN: Do I understand from that that the line of credit is limited by the securities you have on hand?

MR. JOHNSON: Oh definitely.

COMMISSIONER BROWN: In other words it is security that you hypothecate, not loans?

MR. JOHNSON: No, it is securities that we hypothecate.

COMMISSIONER MACKINTOSH: The distinction of dealing with members only is a very clear one. Without any views on it if it were considered that trust companies generally in this country were carrying on a banking business I think the distinction would not be as clear as with your trust company which is not dealing with members only. That is not implying that the trust company is doing banking business at all.

COMMISSIONER LEMAN: Dr. Mackintosh, I think

this morning we will find on the record something that might weaken a little this common bond of association concept vis-a-vis banking because I think it was Mr. Charbonneau who said that the common bond of association in certain cases could become the membership in the union which is a sort of an ipso facto association.

COMMISSIONER MACKINTOSH: I was not making the distinction of common bond but simply the fact of membership.

COMMISSIONER LEMAN: Well, if you deal with a member and he became a member in order to get a loan it is a sort of reverse process.

COMMISSIONER MACKINTOSH: I am not going to use the analogy of the club which you can join.

THE CHAIRMAN: Anything further?

That then concludes our hearings on your submission, gentlemen. We appreciate very much the assistance you have given us and the very full material that you have presented to us. Apparently on the last question we are all in somewhat equal doubt although perhaps you have ideas that you would like to see maintained but I can assure you all we wish from you is your assistance and your views on these matters whatever they may be.

We will give them the very fullest consideration because no doubt those are all questions that will have to be considered carefully.

MR. NEVILLE: Mr. Chairman, on behalf of the organization represented here I would like to thank

you, Mr. Chairman, and the members of the Commission for a very courteous and very pleasant hearing.

THE CHAIRMAN: Then, tomorrow the Commission will meet at 9.15 A.M. to hear the submission of the Government of Saskatchewan.

---Adjournment.

Royal Commission on Banking and Finance

Hearings held at Regina

Vol. 6A

Date. March 22, 1962

Official Reporters
F. J. Nethercut and R. J. Young
Toronto, Ont.

SUMMARY OF BRIEF

presented by the

CREDIT UNION LEAGUE OF SASKATCHEWAN

to

THE ROYAL COMMISSION ON BANKING AND FINANCE

The purpose of the brief is to describe the origin, objectives, operating methods and services provided by credit unions in Saskatchewan, review their significance and discuss the relationship of credit unions to our financial system. Similar information is submitted respecting organizations formed and controlled by credit unions, either in whole or in part.

The conditions of the thirties, combining the effects of a prolonged drought in a predominantly agricultural province with a general economic depression which saw widespread disappearance of peoples' savings and severe curtailment of credit services, showed a strong need for a new type of a savings and credit medium. The earlier success of credit unions in the Maritimes and particularly in Quebec suggested that they could have a place in this Province. Credit union development began in Saskatchewan in 1937 with the approval by the Provincial Legislature of The Credit Union Act in that year.

The first credit unions were urban but these were soon followed by rural groups comprised of the residents of a town or village, together with farmers in the surrounding trading area. In view of the importance of agriculture in Saskatchewan, credit unions had to serve rural areas if they were to achieve their value to the Province. The widespread organization of credit unions in rural areas which has characterized credit union development in this Province indicates the adaptability of this type of credit organization to serve agriculture. In September 1961, out of a total of 279 credit unions operating in the Province, 221 were of the rural community type.

By September last year, credit unions in Saskatchewan had 152,000 members, approximately 16 per cent of the Province's population, assets of $108 millions and loans in force of $65 millions, while

A510

SUMMARY OF BRIEF

presented by the

CREDIT UNION LEAGUE OF SASKATCHEWAN

to

THE ROYAL COMMISSION ON BANKING AND FINANCE

The purpose of the brief is to describe the origin, objectives, operating methods and services provided by credit unions in Saskatchewan, review their significance and discuss the relationship of credit unions to our financial system. Similar information is submitted respecting organizations formed and controlled by credit unions, either in whole or in part.

The conditions of the thirties, combining the effects of a prolonged drought in a predominantly agricultural province with a general economic depression which saw widespread disappearance of peoples' savings and severe curtailment of credit services, showed a strong need for a new type of a savings and credit program. The earlier success of credit unions in the Maritimes and particularly in Quebec suggested that they could have a place in this Province. Credit union development began in Saskatchewan in 1937 with the approval by the Provincial Legislature of The Credit Union Act in that year.

The first credit unions were urban but these were soon followed by rural groups comprised of the residents of a town or village, together with farmers in the surrounding trading area. In view of the importance of agriculture in Saskatchewan, credit unions had to serve rural areas if they were to achieve their value to the Province. The widespread organization of credit unions in rural areas which has characterized credit union development in this Province indicates the adaptability of this type of credit organization to serve agriculture. In September 1961, out of a total of 279 credit unions operating in the Province, 221 were

By September last year, credit unions in Saskatchewan had 152,000 members, approximately 16 per cent of the Province's population, assets of $[illegible] million and loans in force of $[illegible] millions, while

the amount loaned since 1937 was over $296 millions. The loss ratio during this period was 16 cents out of every $100 loaned.

Early in their development, credit unions organized the Credit Union League which is a federation of credit unions, is owned and controlled by them, acts as general spokesman for the movement and provides a variety of services to its members. These include organization, education, legislation, public relations, printing and supplies and other services required by the members on a group basis. All but two credit unions in the Province are members.

The next step was the organization of the Saskatchewan Co-operative Credit Society in 1941. The Society, an association of credit unions and co-operatives, is in effect a central credit union, acts as a depository for surplus funds of credit unions, lends money to them and to co-operatives, and refunds earnings to members as dividends on shares and interest refunds. The Society is the largest organization of its kind in Canada, acts as the clearing agency for those credit unions that permit the use of withdrawal orders negotiable by endorsement and has been able to meet the short-term and intermediate-term credit needs of credit unions and to a considerable extent those of co-operatives, especially in the consumer field.

The Co-operative Trust Company was formed in 1952 to provide long-term credit to individuals and to carry on the usual type of trust company business, including the preparation of wills and management of estates. The Company is an association of credit unions and co-operatives with most of the membership being comprised of credit unions. The latter use the Company as a medium for investment of surplus funds which may not be required for considerable periods and may recommend long-term loans by their members from the Company.

Credit unions, therefore, have three organizations which they own and control - the League for education and promotion, the Society for short-term and intermediate-term loaning service, the investment of funds not temporarily required, as well as the clearing of negotiable orders, and the Trust Company for longer-term investments and long-term loans. The bulk of surplus credit union funds are deposited or invested with the Society.

A311

the amount loaned since 1937 was over $295 millions. The loss ratio during this period was 15 cents out of every $100 loaned.

Early in their development, credit unions organized the Credit Union League which is a federation of credit unions, is owned and controlled by them, acts as general spokesman for the movement and provides a variety of services to its members. These include organization, education, legislation, public relations, printing and supplies and other services required by the members on a group basis. All but two credit unions in the Province are members.

The next step was the organization of the Saskatchewan Co-operative Credit Society in 1941. The Society, an association of credit unions and co-operatives, is in effect a central credit union, acts as a depository for surplus funds of credit unions, lends money to them and to co-operatives, and refunds earnings to members as dividends on shares and [illegible] kind in Canada, acts as the clearing agency for those credit unions that permit the use of withdrawal orders negotiable by endorsement and has been able to meet the short-term and intermediate-term credit needs of credit unions and to a considerable extent those of co-operatives, especially in the consumer field.

The Co-operative Trust Company was formed in 1952 to provide long-term credit to individuals and to carry on the usual type of trust company business, including the preparation of wills and management of estates. The Company is an association of credit unions and co-operatives with most of the membership being comprised of credit unions. The latter use the Company as a medium for investment of surplus funds which may not be required for considerable periods and may recommend long-term loans by their members from the Company.

Credit unions, therefore, have three organizations which they own and control - the League for education and promotion, the Society for short-term and intermediate-term lending service, the investment of funds not temporarily required, as well as the clearing of negotiable orders, and the Trust Company for longer-term investments and long-term loans. The bulk of surplus credit union funds are deposited or invested with the Society.

A credit union is defined in the Saskatchewan Credit Union Act as an organization for "the promotion of thrift among its members and the creation of a source of credit for its members at legitimate rates of interest, exclusively for provident and productive purposes".

To put it another way, the objects of a credit union are the creation of a pool of savings by its members from which loans are made to members only at interest which shall not exceed one per cent per month on the unpaid balance.

A credit union is a corporation with shares of $5.00 each, with each member having one vote, regardless of shareholdings. In organization, stress is laid on a common bond of association, occupation or residence, to establish a closer relationship between the member and his credit union and a stronger community of interest. Members' savings are received in the form of shares or deposits, both being readily withdrawable. A credit union may borrow for its purposes, i.e. to provide credit for its members, on the strength of its investments and book accounts. Interest may be paid on deposits, and earnings are used to pay a dividend on shares at a rate not exceeding five per cent and sometimes an interest refund, after providing for necessary reserves. Shares or deposits may be withdrawn by a member in person at the office of the credit union, and subject to certain reserves being maintained, a credit union may permit withdrawals from deposit account by negotiable orders. Overdrafts are prohibited. Democratic control is exercised through officials elected by the members. An annual examination is made by the Registrar of all credit unions.

All credit unions in Saskatchewan are required to contribute to a central reserve fund called the Mutual Aid Fund. Consequently, there have been no losses of members' shares or deposits in credit unions since inception of the movement in Saskatchewan.

WHAT DO CREDIT UNIONS ACCOMPLISH AND WHAT IS THEIR RELATIONSHIP TO OUR FINANCIAL SYSTEM?

1. They offer a unique method of encouraging systematic savings and providing low cost credit to persons who can qualify as members.

2. A credit union's "customers" are also its owners so that more savings

tend to accumulate than would otherwise if members had to rely exclusively on agencies lacking the same personal relationship and over which they have no control.

3. Credit unions are better able to adapt their services to the needs of their own local communities because they are locally controlled by their members rather than being controlled outside the community or even the province.

4. The close relationship between credit unions and their members offers special advantages for counselling in the wise use of credit.

5. Credit unions, serving members only, can provide credit at a lower cost than most other agencies. Lower "acquisition costs" and a lower risk factor, because a member borrows his fellow members' savings, result in an extremely low loss ratio.

6. Credit unions are recognized as a stabilizing factor in a community's economy. They differ from other savings and lending institutions by the local nature of their savings and lending services, and they constitute an alternative lending agency in the personal credit field and supplement the services of the chartered banks, generally considered the prime source for business capital.

7. The social effects, particularly the awareness of an individual to his community responsibilities that results from people working together to solve economic problems, are important in assessing the place of credit unions in our economy.

8. The training that thousands of elected directors and committee men in credit unions receive in the management of an important service through the democratic process should also be remembered in this day of growing concern over the apathy to many of those institutions we value in a free society.

9. The League takes the position that credit unions have an important part to play in promoting thrift and providing credit at reasonable rates, and they should receive encouragement in their development. Local control over savings and credit helps to keep savings within the communities in which they originate and is a definite asset to such communities. The same may be said to apply to the provincial field with regard to

Nethercut & Young
Toronto, Ontario

services provided by the Saskatchewan Co-operative Credit Society and the Co-operative Trust Company.

10. The League is of the opinion that current provincial credit union legislation is quite adequate, is administered very well by the Provincial Government and that credit unions should remain under Provincial jurisdiction.

services provided by the Saskatchewan Co-operative Credit Society and [illegible]

10. The League is of the opinion that current provincial credit union legislation is quite adequate, is administered very well by the Provincial Government and that credit unions should remain under Provincial [illegible]

BRIEF

presented by the

CREDIT UNION LEAGUE OF SASKATCHEWAN
Regina, Sask.

to

THE ROYAL COMMISSION ON BANKING AND FINANCE

Purpose

Outline of Purpose

1. The purpose of this brief is to describe as fully as possible the background, the structure, the objectives and the operations of credit unions in Saskatchewan in the hope the brief will be helpful to the Commission in evaluating the place of credit unions in the Canadian financial system. A description of the Credit Union League and its services, as well as co-operative financial organizations providing services to credit unions, will also be included.

Recommendations

2. It is not intended to present any recommendations respecting credit unions in Canada as a whole. The Credit Union League of Saskatchewan prefers to rely in this regard upon presentations to be made by the National Association of Canadian Credit Unions.

Completion of Additional Questionnaire

3. The League is informed that a detailed questionnaire regarding statistics and operating practices of credit unions is being completed with the assistance of the Saskatchewan Department of Co-operation and Co-operative Development at the request of the Joint Secretary of the Commission and will be forwarded to the Secretary as soon as possible.

History of Credit Unions

Experience in other Areas

4. The decision to organize credit unions in Saskatchewan in 1937 was due to the need for devising new methods of encouraging savings and providing credit at reasonable rates. The experience of Quebec and the Maritime Provinces with credit union techniques suggested the

adaptability of this type of organization to meet some of the depressed conditions that confronted the people of Saskatchewan during the thirties. The story of why and how credit unions were brought to the Province is found in an article on the History and Development of the Credit Union Movement annexed hereto as Schedule A.

Economic Conditions in the Thirties

5. During the thirties, Saskatchewan experienced several consecutive years of drought and crop failure, the average yield of wheat in 1937 being two bushels per seeded acre. Thousands of farm families were on relief and this was matched by unemployment conditions in our towns and cities. Savings of the average farmer and workman disappeared and credit facilities were severely curtailed during the period, especially in rural areas. As an example of the curtailment of credit services, Saskatchewan in 1929 had 442 branches of chartered banks in 385 communities. By the year 1940, there were only 251 branches in 196 communities.* It was evident that something had to be done to provide additional means of encouraging savings as a foundation for credit to meet some of the depressed conditions of the period and this helps to explain why the credit union movement became established in Saskatchewan.

First Credit Unions

6. The first credit union in Saskatchewan was organized by workers and small businessmen in the Jewish community in Regina in August 1937. This was followed a short time later by a credit union chiefly of railway employees in Moose Jaw. These were followed by a number of urban credit union groups having a well-defined tie of association and occupation which helped initially in dealing with some of the most pressing credit problems of the members after some savings had been accumulated in each credit union.

* Source: Canadian Almanac, 1929 and 1940.

First Rural Community Credit Union

7. In view of the predominance of agriculture in Saskatchewan, it became evident that if credit unions were to perform a significant service to the people they had to be organized in and become adaptable to the conditions and needs of rural areas. The first rural community credit union was organized early in 1938 in the village of LaFleche in southwestern Saskatchewan in the heart of what was then known as the drought area. Membership consisted of farmers in the surrounding trading area, local businessmen, workers, professional people and the local clergy. This credit union now has assets of $2,350,000 and, along with the local branch of a chartered bank, provides a good service to the people of this rural community.

Importance of Rural Development

8. The organization of the LaFleche Credit Union showed that a local savings and credit institution could be established to serve a rural district subject to severe fluctuations in income and helped to set a pattern of rural organization which has become a characteristic of credit union development in Saskatchewan. Other rural community credit unions were organized in rapid succession and by September 30, 1961, there were 221 credit unions of this type out of a total of 279 then on the register. The map on page 38 of "A Supplement to the Annual Report of the Department of Co-operation and Co-operative Development" annexed hereto as Schedule B shows how extensively credit unions have been organized to serve rural areas in comparison with the industrial or occupational type that predominates in a number of other areas of Canada.

Growth of Credit Unions

9. By September 1961, the 279 credit unions in operation in Saskatchewan had 152,000 members, assets of $108 millions and loans in force of $65 millions, while the amount loaned since the inception of the movement in 1937 was in excess of $296 millions. A total of 333 charters had been issued during the period, there had been 52 amal-

gamations and dissolutions while two were inactive. (See Progress Report on Saskatchewan Credit Unions, September 1961, published by the Department of Co-operation and Co-operative Development and annexed hereto as Schedule C.)

Classes of Credit Unions

10. Credit unions in Saskatchewan tend to fall into four classes or groups: Associational of which there were 17 in September 1961 where the members may belong to the same racial group or local parish, 29 occupational groups where the members have the same employer, either an industrial plant or government or civic institution, which tends to facilitate savings through authorized payroll deductions, 12 urban-rural residential groups usually with a relatively large membership based on residence in or near to an urban city centre, and 221 rural community credit unions mentioned above. (See pages 1 to 8 of Schedule C.)

History and Development of the League

Origin of League

11. As soon as a number of credit unions had been organized in Saskatchewan, their members recognized the desirability of a special organization to facilitate an exchange of views on common problems, undertake educational, advisory and other services for credit unions that might become members, and generally to take such steps as appeared necessary for the advancement and welfare of the new movement. An unincorporated federation for this purpose was organized by credit unions in 1938 and formally incorporated under The Credit Union Act in 1941 as the Credit Union Federation of Saskatchewan. Later on the registered name was changed to that of the Credit Union League of Saskatchewan.

Objects and Purposes of the League

12. The League is the educational and promotional body for the credit union movement in Saskatchewan. Its main objects and purposes are as follows:

"The primary purpose of this League shall be to perform such common functions for and on behalf of the credit unions organized in the Province of Saskatchewan as may be provided by the terms of The Credit Union Act, 1956.

(a) Carrying on, encouraging and assisting educational and advisory work relating to credit unions;

(b) Improving methods of management of credit unions and standardizing their bookkeeping, accounting and other procedure;

(c) Reducing operating costs of credit unions by arranging for group bonding of credit union employees, insuring savings of members and repayment of loans made by credit unions to their members, and purchasing bookkeeping and other supplies for sales to its members and other credit unions;

(d) Accepting as members credit unions admitted by the directors of the League;

(e) Encouraging the organization into Chapters of credit unions which are members and prescribing such bylaws as are necessary for the administration of such Chapters;

(f) Rendering to its members any other services incidental to its objects."

(See Constitution and Bylaws of the League annexed hereto as Schedule D - 1.)

Some Functions of the League

13. All but two credit unions in Saskatchewan are members of the League and govern its policies at annual meetings. In view of this widespread support and participation, the League is in a position to act as spokesman for the credit union movement in Saskatchewan and to advance its interests. The annual meeting of the League is a forum for the exchange of views regarding the growth and improvement of credit union services, discussion of needed amendments to provincial credit union legislation, examination of ways and means of making credit union services available to more people who may be in a position to use such services, and providing more effective methods of keeping the ideals and objectives of the movement before the public. League officials consult when necessary with representatives of similar bodies in other provinces and the League is a member of the National Association of Canadian Credit Unions.

Some Services of the League

14. The League, through its directors, management and staff, provides a growing variety of services to its members in accordance with the objects and purposes listed in paragraph 12. These include extension programs of education amongst members of credit unions, training courses for managerial personnel, courses for directors and committee men, arrangements for group bonding of employees of credit unions, negotiations with agencies providing loan and life savings insurance, operation of a collection agency, assistance with organization of new credit unions, assistance in the administration of the Mutual Aid Fund for all credit unions, and in general giving assistance to credit unions regarding special problems of membership relations. An important function is publicity designed to keep the public informed regarding the place of the credit union movement in our Province.

Democratic Control

15. For the purposes of control of the League by credit unions, the Province is divided into 12 districts for the election of a director in each. District meetings at which each credit union may be represented by two delegates are held in each year prior to November 30th. Each director elected at a district meeting assumes office immediately following the annual general meeting of delegates from all credit unions which is usually held in the month of February. The annual general meeting of the League considers the directors' report, the report of management and in general lays down policies that are considered necessary to advance the interests of the credit union movement. But the district meetings, in addition to the election of directors, are intended to facilitate discussion of credit union problems on a regional basis so that delegates attending the annual general meeting of the League may have a clearer picture of the views of credit union officials in various parts of the Province. In order to facilitate more intensive educational effort and to improve operating

procedures within a district, any two or more credit unions therein may form chapters which are, in effect, workshops and an important means for credit union education. The democratic structure and control of the League, together with the organization of districts and district chapters, are outlined in the constitution and bylaws annexed hereto as Schedule D - 1.

Review of League Operations

16. A more detailed description of the functions and services of the League is found in the following additional Schedules annexed hereto:

Advanced Management Training Course (sponsored by the League) .... Schedule D - 2

Courses in Management and Officer Training (Chapter program).................. Schedule D - 3

Picture Chart "Saskatchewan Credit Union Movement".................. Schedule D - 4

Annual Report of the Credit Union League of Saskatchewan .... Schedule D - 5

Origin and Objects of Saskatchewan Co-operative Credit Society

Initial Need for Society

17. At an early stage of their development, some Saskatchewan credit unions found themselves with seasonal surpluses of funds on their hands. Others found it necessary to borrow money to meet seasonal demands for loan services by their members. It seemed desirable, therefore, that credit unions should have some agency of their own to facilitate the flow of surplus funds from one credit union to another and to invest any part of such surplus funds not immediately required by the movement itself. The logical place for at least a portion of such investment seemed to lie in loans to other co-operatives. The scarcity of other credit facilities in Saskatchewan during the early forties seemed another reason why credit unions should have their own central credit and depository agency, especially if the staff thereof could be trained to appraise some of the special needs and problems of credit unions which were members and to understand also the credit needs of co-operatives that might wish to take advan-

procedures within a district, any two or more credit unions therein may form chapters which are, in effect, workshops and an important means for credit union education. The democratic structure and control of the League together with the organization of districts and district chapters, are outlined in the constitution and bylaws annexed hereto as Schedule D - 1.

Review of League Operations

16. A more detailed description of the functions and services of the League is found in the following additional Schedules annexed hereto:

(... offered by the League).............. Schedule D - 2

Courses in Management and Officer Training
(Chapter program)...................... Schedule D - 3

Picture Chart "Saskatchewan Credit

Annual Report of the Credit Union League
of Saskatchewan .... Schedule D - 5

Origin and Objects of Saskatchewan Co-operative Credit Society

Initial Need for Society

17. At an early stage of their development, some Saskatchewan credit unions found themselves with seasonal surpluses of funds on their hands. Others found it necessary to borrow money to meet seasonal demands for loan services by their members. It seemed desirable, therefore, that credit unions should have some agency of their own to facilitate the flow of surplus funds from one credit union to another and to invest any part of such surplus funds not immediately required by the movement itself. The logical place for at least a portion of such investment seemed to lie in loans to other co-operatives. The scarcity of other credit facilities in Saskatchewan during the early forties seemed another reason why credit unions should have their own central credit and depository agency, especially if the staff thereof could be trained to appraise some of the special needs and problems of credit unions which were members and to understand also the credit needs of co-operatives that might wish to take advan-

tage of the new services available. The result was the incorporation of Saskatchewan Co-operative Credit Society by a special Act of the Saskatchewan Legislature in 1941. (See special Act of Incorporation annexed hereto as Schedule E.)

Main Objects of the Society

18. The main objects of the Society are to receive money on deposit from its members which are credit unions and co-operatives only and to loan money to its shareholder members. The Society may also borrow from banks any additional funds needed upon the security of its investments in order to meet the loan demands of its shareholder members and to invest surplus funds not immediately required for loans. The primary aim of the Society is to meet as many of the credit needs of its corporate members as possible.

Relationship to Credit Unions

19. As is to be expected, the greater part of the funds deposited with the Society are from credit unions. In the earlier years of the Society, most of its loans were made to credit unions and smaller co-operatives which were members. As the resources of the Society grew, loans were advanced to some of the larger co-operatives until the amount loaned to co-operatives of various kinds sometimes exceeds by a considerable margin the amount loaned to credit unions. As far as credit unions are concerned, the Society continues as their central for credit and deposit services with control of the organization shared with member co-operatives on a delegate basis of one member one vote. The Society has always conducted its operations in such a manner as to be able to meet all proper loan applications from credit unions.

Growth of the Society

20. The growth of the Society and its services has been impressive by provincial standards as evidenced by the directors' report and audited financial statement for the year ending November 30, 1961, and annexed hereto as Schedule F. The Society is the largest

organization of its kind in Canada serving both credit unions and co-operatives. It accepts co-operatives of all types as well as credit unions into its membership.

Origin and Objects of the Co-operative Trust Company

Initial Need for Company

21. While credit unions were organized with the main object of meeting the short-term and to some extent intermediate-term credit requirements of their members, they were frequently faced with a demand for long-term mortgage loans which they were unable to deal with. At the same time, credit union officials, in view of the knowledge which they had of the overall credit needs of their members, were in a good position to advise other credit agencies on ways and means of meeting their long-term credit needs, provided such agencies had the resources and services needed for loans of this type. This situation helped to create a demand from credit unions and other members of co-operatives interested in long-term credit for a special type of organization to provide such credit.

Need for Trust Services

22. In addition to that, many members of credit unions and co-operatives wanted a co-operative for the preparation of wills, management of estates and as a source of long-term investment for savings through an organization under their own control. These factors, together with the pressure on credit unions for long-term loans, led to the incorporation of Co-operative Trust Company Limited under a special Act of the Saskatchewan Legislature in 1952. A copy of this Act is annexed hereto as Schedule G.

Comparison with Co-operative Credit Society

23. The Trust Company differs from the Co-operative Credit Society in that it provides services to individuals who are members of corporate shareholders. The Society, on the other hand, loans money to its corporate members only. The Company is primarily in the field of long-term mortgage loans to individuals whereas the Society provides short-term and intermediate-term loans, the latter sometimes

extending up to 15 years. The Company also performs the functions of a trustee and administrator of estates. It uses the services of credit unions which are members to appraise and make recommendations to the Company respecting long-term loan applications. In this way, credit unions use the Trust Company first as a medium for investing surplus funds not required for considerable periods of time, e.g. through the purchase of shares in the Company or other investments therein, and second, as a means of meeting some of the long-term credit needs of credit union members.

The Family Farm Credit Act

24. In 1959 the Government of Saskatchewan entered into an agreement with the Co-operative Trust Company for the administration by the latter of The Family Farm Credit Act, a copy of which is annexed hereto as Schedule H. This Act provides for long-term loans to assist younger men to become established in farming and to enlarge small farms to units of economic size. The agreement provided for guarantees by the Government of the securities sold by the Trust Company to finance lending operations under the Act and the guarantee of loans made by the Company to farmers under the conditions prescribed in the Act. The Provincial Government also purchases securities sold by the Company under the Act, in amounts equal to those purchased by co-operatives, credit unions and individuals. While loans made by the Company from its own funds are confined to shareholders or members of shareholders, applications for loans under The Family Farm Credit Act may be considered from any qualified borrower. Under this Act the Co-operative Trust Company is able to provide a service that is supplementary to that which is available from the Dominion Farm Credit Corporation.

Growth of the Trust Company

25. The growth and variety of services provided by the Trust Company are outlined in its latest directors' report and audited financial statement annexed hereto as Schedule I. It will be noted that the

number of shareholders in the Company is 196 consisting of 164 credit unions and 32 other co-operatives.

Objects, Powers and Operations of Credit Unions

Statutory Objectives of a Credit Union

26. Section 17 of The Credit Union Act of Saskatchewan together with Standard Bylaws, annexed hereto as Schedules J and J - 1 respectively, states that the objects of a credit union shall be "the promotion of thrift among its members and the creation of a source of credit for its members at legitimate rates of interest, exclusively for provident and productive purposes".

Economic Objects of Credit Unions

27. Another way of describing the objects of a credit union is the creation of a pool of savings by its members from which loans are made to members only at moderate rates of interest. The savings of the members in the form of investments and book accounts may also be used as security for borrowing to meet additional loan demands when necessary. Savings not immediately required for reloaning or temporary deposit purposes are invested in designated securities and the income therefrom, together with interest received on loans made to members, usually enables a credit union, after taking care of operating costs and reserves, to pay a return on shares up to five per cent and where possible to refund a portion of the interest paid by borrowers on loans from the credit union. The object, therefore, is the creation of a revolving fund of savings supplemented when necessary by borrowed money to be used for loans to members or for investment when not immediately required for loans. Interest charged on loans is, subject to statutory limitations, fixed at a rate which is expected to enable the credit union to take care of administrative expenses, including cost of borrowed money, if any, and after allocation to a reserve for contingencies will make it possible to pay the member a return on his savings at a rate which will encourage him to either leave his savings, which are

readily withdrawable, with the credit union or keep on increasing them. If the interest charged on loans is found to result in income higher than necessary for a moderate return on savings, a borrower refund may be made. The broad objective of a credit union then is to help people to build up savings as a foundation for credit and to charge for the latter just enough to take care of expenses, reserves and to pay a return on savings to encourage members to leave their savings with the credit union or to increase them.

Control by Users

28. One feature that distinguishes a credit union from other savings and credit agencies is that administration and control are in the hands of the members who accumulate the savings and who require the credit.

Powers of a Credit Union

29. The main powers of a credit union are set forth in section 18 of The Credit Union Act - Schedule J. The powers include authority to receive savings of its members as shares or deposits, receive deposits from Saskatchewan Co-operative Credit Society, Co-operative Trust Company and from governments or agencies, make loans to individual persons who are members as well as to credit unions, co-operatives, and municipal or non-profit community organizations that are also members, but not to government departments, the Saskatchewan Co-operative Credit Society or the Co-operative Trust Company, deposit money in chartered banks or with trust and loan companies and with Saskatchewan Co-operative Credit Society, borrow money under conditions prescribed in the Act and invest in Dominion or Provincial bonds and up to prescribed limits in securities issued by co-operatives or in securities authorized under The Trustee Act. Provision is also made for membership by a credit union in another credit union, in the Saskatchewan Co-operative Credit Society and the Co-operative Trust Company and the appointment of one or more delegates for representation at

readily withdrawable, with the credit union or keep on increasing them. If the interest charged on loans is found to result in income higher than necessary for a moderate return on savings, a borrower refund may be made. The broad objective of a credit union then is to help people to build up savings as a foundation for credit and to charge for the latter just enough to take care of expenses, reserves and to pay a return on savings to encourage members to leave their savings with the credit union or to increase them.

Control by Users

28. One feature that distinguishes a credit union from other savings and credit agencies is that administration and control are in the hands of the members who accumulate the savings and who acquire the credit.

Powers of a Credit Union

29. The main powers of a credit union are set forth in section 18 of The Credit Union Act - Schedule J. The powers include authority to receive savings of its members as shares or deposits, receive

operative Trust Company and from governments or agencies, make loans to individual persons who are members as well as to credit unions, co-operatives, and municipal or non-profit community organizations that are also members, but not to government departments, the Saskatchewan Co-operative Credit Society or the Co-operative Trust Company, deposit money in chartered banks or with trust and loan companies and with Saskatchewan Co-operative Credit Society, borrow money under conditions prescribed in the Act and invest in Dominion or Provincial bonds and up to prescribed limits in securities issued by co-operatives or in securities authorized under The Trustee Act. Provision is also made for membership by a credit union in another credit union, in the Saskatchewan Co-operative Credit Society and the Co-operative Trust Company and the appointment of one or more delegates for representation at

meetings of such organizations as the Society, the Trust Company and the Credit Union League providing services to credit unions.

Social Objects of a Credit Union

30. A credit union enables the members to work together on a democratic basis in the solution of common problems. It places a premium on self-help and exerts a strong appeal to individual responsibility and loyalty on the part of the member to the group as a whole whose collective savings he borrows. The member knows that his savings in the credit union are a foundation for credit in case of need. The closer contact between a borrower and lender that tends to set a credit union apart from other lending agencies frequently makes possible a more personalized credit service based on character of the borrower and an appeal to his loyalty to the group. The member is thus encouraged to play his part as a responsible person because he knows he may be borrowing the equivalent of the savings of his friends and neighbours. This tends to create a greater spirit of self-reliance and the member is less disposed to look to others for the solution of his problems. The result may well be a better realization of the rights and needs of his fellow-members and a correspondingly keener appreciation of the needs of the community in which he lives.

Some Effects of Social Objects

31. These social effects that tend to follow from a successful translation into action of the economic objects of a credit union have attracted support from economists, social workers and many leaders interested in social betterment all over the world. The effects of credit unions on the development of character, greater spirit of economic independence and a greater sense of responsibility towards individuals and the community and less reliance on the state, help to explain why credit unions receive such general support not only in this country but also in other areas where economic and social needs are greater than in ours.

meetings of such organizations as the Society, the Trust Company and the Credit Union League providing services to credit unions.

20. A credit union enables the members to work together on a democratic basis in the solution of common problems. It places a premium on self-help and exerts a strong appeal to individual responsibility and loyalty on the part of the member to the group as a whole whose collective savings he borrows. The member knows that his savings in the credit union are a foundation for credit in case of need. The closer contact between a borrower and lender that tends to set a credit union apart from other lending agencies frequently makes possible a more personalized credit service based on character of the borrower and an appeal to his loyalty to the group. The member is thus encouraged to play his part as a responsible person because he knows he may be borrowing the equivalent of the savings of his friends and neighbours. This tends to create a greater spirit of self-reliance and the member is less disposed to look to others for the solution of his problems. The result may well be a better realization of the rights and needs of his fellow-members and a correspondingly keener appreciation of the needs of the community in which he lives.

21. These social effects that tend to follow from a successful translation into action of the economic objects of a credit union have attracted support from economists, social workers and many leaders interested in social betterment all over the world. The effects of credit unions on the development of character, greater spirit of economic independence and a greater sense of responsibility towards individuals and the community and less reliance on the state, help to explain why credit unions receive such general support not only in this country but also in other areas where economic and social needs are greater than in ours.

meetings of such organizations as the Society, the Trust Company and the Credit Union League providing services to credit unions.

Social Objects of a Credit Union

30. A credit union enables the members to work together on a democratic basis in the solution of common problems. It places a premium on self-help and exerts a strong appeal to individual responsibility and loyalty on the part of the member to the group as a whole whose collective savings he borrows. The member knows that his savings in the credit union are a foundation for credit in case of need. The closer contact between a borrower and lender that tends to set a credit union apart from other lending agencies frequently makes possible a more personalized credit service based on character of the borrower and an appeal to his loyalty to the group. The member is thus encouraged to play his part as a responsible person because he knows he may be borrowing the equivalent of the savings of his friends and neighbours. This tends to create a greater spirit of self-reliance and the member is less disposed to look to others for the solution of his problems. The result may well be a better realization of the rights and needs of his fellow-members and a correspondingly keener appreciation of the needs of the community in which he lives.

Some Effects of Social Objects

31. These social effects that tend to follow from a successful translation into action of the economic objects of a credit union have attracted support from economists, social workers and many leaders interested in social betterment all over the world. The effects of credit unions on the development of character, greater spirit of economic independence and a greater sense of responsibility towards individuals and the community and less reliance on the state, help to explain why credit unions receive such general support not only in this country but also in other areas where economic and social needs are greater than in ours.

Significance of Low Loss Ratio

32. Perhaps the low loss ratio to loans made by credit unions in Saskatchewan, amounting to 16 cents for every $100 of loans made since 1937, is another indication of how credit unions encourage group loyalty and individual responsibility on the part of their members.

Basis of Incorporation

33. Any ten or more persons may incorporate a credit union under The Credit Union Act as a corporate body with share capital having limited liability and a par value of $5.00. Credit unions are not required to adopt the common corporate procedure of setting a limit on the amount of authorized share capital. In practice, incorporation does not take place unless there is assurance of a potential membership of 30 or more persons. The credit union may charge a small entrance fee and receive the savings of its members as shares and deposits. Shares as well as deposits are withdrawable subject to notice prescribed in the Standard Bylaws. As stated in paragraph 29, loans may be made to members only.

Basis for Organization

34. In organizing a credit union, emphasis is placed on a common bond of association. This is to facilitate a greater community of interest and participation in a credit union by its members and to make it easier to deal with credit problems that may have more factors in common where the members belong to the same occupational group, the same co-operative association or parish, or live in a closely-knit rural district, e.g. the residents of a small town or village and farmers in the surrounding trading area.

Relations with Members

35. While a common bond of association or residence tends to be a significant factor in appraising the need for credit and in encouraging member participation in the affairs of the credit union at annual or other meetings, this diminishes in importance when credit unions achieve a large membership as for example where the members

Loss Ratio

Saskatchewan, amounting to 16 cents for every $100 of loans made since 1937, is another indication of how credit unions encourage group loyalty and individual responsibility on the part of their members.

Basis of Incorporation

33. Any ten or more persons may incorporate a credit union under The Credit Union Act as a corporate body with share capital having limited liability and a par value of $5.00. Credit unions are not required to adopt the common corporate procedure of setting a limit on the amount of authorized share capital. In practice, incorporation does not take place unless there is assurance of a potential membership of 50 or more persons. The credit union may charge a small entrance fee and receive the savings of its members as shares and deposits. Shares as well as deposits are withdrawable subject to notice prescribed in the Standard Bylaws. As stated in paragraph 29, loans may be made to members only.

Basis for

34. In organizing a credit union, emphasis is placed on a common bond of association. This is to facilitate a greater community of interest and participation in a credit union by its members and to make it easier to deal with credit problems that may have more factors in common where the members belong to the same occupational group, the same co-operative association or parish, or live in a closely-knit rural district, e.g., the residents of a small town or village and farmers in the surrounding trading area.

Relations ... Members

35. While a common bond of association or residence tends to be a significant factor in appraising the need for credit and in encouraging member participation in the affairs of the credit union at annual or other meetings, this diminishes in importance when credit unions achieve a large membership as for example where the members

consist of persons belonging to other co-operatives but residing in the neighbourhood of a city or living in the city. The growth of membership in these circumstances has, however, in every case, been stimulated by the initial success of a relatively small closely-knit group that organized the credit union in the first place.

Membership in Sask. Credit Unions

36. At the present time, approximately 16% of the population of Saskatchewan, or 152,000, mostly adults and heads of families, have a membership in Saskatchewan credit unions. (See Schedule C). A significant proportion of the people of this Province, therefore, have a membership in or are affected by the services provided by credit unions.

Administration by Members through Elected Officials

37. While the members control the policies of the credit union through members' meetings on the basis of one member one vote, they exercise administrative control through elected officials. These are:

(a) Directors elected by the members with general responsibility for administration, including admission of new members, the appointment of a secretary-treasurer or manager, the appointment of a credit committee, the establishment of maximum loan limits subject to The Credit Union Act and the resources of the credit union, the appointment of one member of the supervisory committee and a general supervision over the affairs of the credit union to see that members' policies are carried out and their interests protected.

(b) A credit committee appointed by the directors to consider and make decisions respecting loan applications from members except such loan applications as the treasurer is authorized to deal with by law.

(c) A supervisory committee of three members, two appointed by the members in annual meeting and one by the board of directors. This committee, entirely separate from the credit committee, is

consist of persons belonging to other co-operatives but residing in the neighbourhood of a city or living in the city. The growth of membership in these circumstances has, however, in every case, been stimulated by the initial success of a relatively small closely-knit group that organized the credit union in the first place.

36. At the present time, approximately 15% of the population of Saskatchewan, or 132,000, mostly adults and heads of families, have a membership in Saskatchewan credit unions. (See Schedule C). A significant proportion of the people of this Province, therefore, have a membership in or are affected by the services provided by credit unions.

37. While the members control the policies of the credit union through members' meetings on the basis of one member one vote, they exercise administrative control through elected officials. These are:

(a) Directors elected by the members with general responsibility for administration, including admission of new members, the appointment of a secretary-treasurer or manager, the appointment of a credit committee, the establishment of maximum loan limits subject to The Credit Union Act and the resources of the credit union, the appointment of one member of the supervisory committee and a general supervision over the affairs of the credit union to see that members' policies are carried out and their interests protected.

(b) A credit committee appointed by the directors to consider and make decisions respecting loan applications from members except such loan applications as the treasurer is authorized to deal with by law.

(c) A supervisory committee of three members, two appointed by the members in annual meeting and one by the board of directors. This committee, entirely separate from the credit committee, is

responsible for an internal audit of the credit union in behalf of the membership.

(d) The secretary-treasurer or manager appointed by the directors is responsible for management of the credit union subject to direction by the directors, recommendations by the credit committee and any examination by the supervisory committee. He hires and is responsible for any additional staff required, is bonded together with other staff, if any, and is authorized by law to make loans to members without security up to the amount prescribed in The Credit Union Act and also to make loans without reference to the credit committee where such loans are fully secured by shares in the credit union held by the borrower or government bonds.

Examination of Credit Unions by Registrar and other Duties

38. The Credit Union Act provides for an annual examination of each credit union by the Registrar of Credit Unions and such other periodic examinations as he may require, including a special examination by a chartered or certified public accountant at the expense of the credit union if he deems this necessary. The Registrar approves of applications for incorporation if he deems that incorporation is economically advisable, approves of bylaws and amendments thereto, prescribes bookkeeping and accounting procedures for credit unions, and through a special administrative staff, including fieldstaff, conducts an annual examination and audit (the audit applying to credit unions with assets of less than $200,000), assembles statistical information and furnishes other information that may be used for credit union publicity and promotion purposes. Where a credit union employs its own auditor, the examination is concerned primarily with an evaluation of loaning policies and appraisal of operations.

Employment of Auditor by Credit Unions in Certain Cases

39. Each credit union with assets in excess of $200,000 is required to employ its own auditor who may be a chartered or certified public accountant or any other qualified person approved by the Registrar -

responsible for an internal audit of the credit union in behalf of the members.

(d) The secretary-treasurer or manager appointed by the directors is responsible for management of the credit union subject to direction by the directors, recommendations by the credit committee and any examination by the supervisory committee. He hires and is responsible for any additional staff required, is bonded together with other staff, if any, and is authorized by law to make loans to members without security up to the amount prescribed in the Credit Union Act and also to make loans without reference to the credit committee where such loans are fully secured by shares in the credit union held by the borrower or government bonds.

amination ... other

36. The Credit Union Act provides for an annual examination of each credit union by the Registrar of Credit Unions and such other periodic examinations as he may require, including a special examination by a chartered or certified public accountant at the expense of the credit union if he deems this necessary. The Registrar approves of applications for incorporation if he deems that incorporation is economically advisable, approves of by-laws and amendments thereto, prescribes bookkeeping and accounting procedures for credit unions, and through a special administrative staff, including field staff, conducts an annual examination and audit (the audit applying to credit unions with assets of less than $250,000), assembles statistical information and furnishes other information that may be used for credit union publicity and promotion purposes. Where a credit union employs its own audit or the examination is concerned primarily with an evaluation of lending policies and appraisal of operations.

ployment of Auditor by Credit ... ertain

37. Each credit union with assets in excess of $250,000 is required to employ its own auditor who may be a chartered or certified public accountant or any other qualified person approved by the Registrar -

see paragraph 62 of Schedule J - 1. The decision to require credit unions to employ their own auditor after their assets reached $200,000 was on the assumption that the income of credit unions of this size would permit the payment of auditor's fees and still enable the credit union to pay a moderate dividend or return on shares.

Origin and Use of Funds in Credit Unions

40. The combined balance sheet of Saskatchewan credit unions 1960, page 8, Schedule B, shows that of the total liabilities and net worth amounting to $88,778,000, $66,882,000 was represented by shares subscribed by members while current deposits of members were $13,921,000 or 75.3% and 15.7% of the total respectively. Moneys payable to the Credit Society and other lending institutions amounted to $3,121,000 or 3.5% of the total. This shows the source and flow of funds into the credit union for loans to members or for other investment by the credit union. It illustrates further the local origin of funds for operations, i.e. predominantly from members supplemented by small temporary borrowings from other sources. By September 30, 1961, the total liabilities and net worth of Saskatchewan credit unions had reached $108,000,000 - see Schedule C - but the origin of funds was approximately the same.

Assets of Credit Unions

41. The combined balance sheet on the same page of Schedule B also shows total assets of $88,778,000 of which 62.7% was represented by loans to members, 24.6% by investments, 8.6% by cash on hand and in bank, and 4.1% by other assets, including office buildings, land therefor and credit union investment in the Mutual Aid Fund.

Revenue of Credit Unions

42. The combined revenue of Saskatchewan credit unions in 1960 was $4,834,000 of which $3,375,000 or 69.8% represented interest on loans to members. (See page 8 of Schedule B.) The balance included dividends and interest from investments in the Saskatchewan Co-operative Credit Society and the Co-operative Trust Company by credit unions of funds not immediately required for loaning operations

see paragraph 62 of Schedule J 1. The decision to require credit unions to employ their own auditors after their assets reached $100,000 was on the assumption that the income of credit unions of this size would permit the payment of auditor's fees and still enable the credit union to pay a moderate dividend or return on shares.

Origin and

40. The combined balance sheet of Saskatchewan credit unions 1961, page 8, Schedule B, shows that of the total liabilities and net worth amounting to $98,172,000, $65,887,000 was represented by shares subscribed by members while current deposits of members were $13,521,000 or 15.3% and 15.7% of the total respectively. Moneys payable to the Credit Society and other lending institutions amounted to $3,121,000 or 3.5% of the total. This shows the source and flow of funds into the credit union for loans to members or for other investment by the credit union. It illustrates further the local origin of funds for operations, i.e. predominantly from members supplemented by small temporary borrowings from other sources. By September 30, 1961, the total liabilities and net worth of Saskatchewan credit unions had reached $108,000,000 - see Schedule C - but the origin of funds was approximately the same.

41. The combined balance sheet on the same page of Schedule B also shows total assets of $98,178,000 of which 57.7% was represented by loans to members, 27.6% by investments, 8.7% by cash on hand and in banks, and 6.1% by other assets, including office buildings, land therefor and credit union investment in the Central Aid Fund.

42. The combined revenue of Saskatchewan credit unions in 1960 was $4,344,000 of which $3,375,000 or 77.6% represented interest on loans to members. (See page 5 of Schedule B.) The balance included dividends and interest from investments in the Saskatchewan Co-operative Credit Society and the Co-operative Trust Company by credit unions of funds not immediately required for lending operations.

interest on bonds, dividends received on loan and life insurance premiums paid by credit unions in behalf of their members and miscellaneous income from other sources. Here again the fact emerges that the main function of a credit union is to receive savings from members in the form of shares and deposits, the proceeds of which are loaned to members. Investments of funds temporarily not required for members' loans must be made in such a way that they can either be liquidated on short notice or used as security for further borrowing since members' savings in the form of shares and deposits are, with a few temporary exceptions, readily withdrawable at all times.

Expenditures of Credit Unions

43. A breakdown of the combined expenditures of all credit unions in Saskatchewan in 1960 is also shown on page 8 of Schedule B. The main expenditures are for salaries, office and sundry expenses, loan and life savings insurance premiums and interest on borrowed money in that order.

Distribution of Gross Income

44. The distribution of the gross income is shown in the Chart on page 16 of Schedule B. The Chart shows that operating expenses, including salaries, office costs and cost of borrowed money accounted for 50% of the total expenditures, 10% was used for statutory reserve, 1.5% was transferred to undivided surplus account while approximately 38% of the total was returned to members in the form of dividends on shares and refund of borrower interest. The last item illustrates what credit union members mean when they speak of securing credit as nearly as possible at cost.

Annual Returns filed by Credit Unions

45. An annual return form and statistical report prescribed for credit unions by the Registrar is annexed hereto as Schedule K. This shows the breakdown of revenue and expenditures to be shown by credit unions, their assets and liabilities, allocation of surplus

interest on bank, dividends received on loan and life insurance premia as paid by credit unions in behalf of their members and miscellaneous income from other sources. Here again the fact emerges that the main function of a credit union is to receive savings from members in the form of shares and deposits, the proceeds of which are loaned to members. Investments of funds temporarily not required for members' loans must be made in such a way that they can either be liquidated on short notice or used as security for further borrowing since members' savings in the form of shares and deposits are, with a few temporary exceptions, normally withdrawable at all times.

43. A breakdown of the combined expenditures of all credit unions in Newfoundland in 1950 is also shown on page 6 of Schedule B. The main expenditures are for salaries, office and sundry expenses, loan and life savings insurance premiums and interest on borrowed money in that order.

Expenditures of Credit Unions

44. The distribution of the gross income is shown in the Chart on page 16 of Schedule B. The Chart shows that operating expenses, including salaries, office costs and cost of borrowed money accounted for 50% of the total expenditures, 10% was used for statutory reserve, 1.5% was transferred to undivided surplus account while approximately 38% of the total was returned to members in the form of dividends on shares and refund of borrowers' interest. The last item illustrates what credit union members mean when they speak of securing credit as nearly as possible at cost.

Distribution of Gross Income

45. An annual return form and statistical report prescribed for credit unions by the Registrar is annexed hereto as Schedule K. This shows the breakdown of revenue and expenditures to be shown by credit unions, their assets and liabilities,all motion, i number

earnings, and a classification of investments. Statistics in Schedule B are compiled from information furnished by credit unions on the form in Schedule K.

Interest Charged on Loans

46. The maximum rate of interest that may be charged by a credit union is 1% per month on the unpaid balance. (See section 73 of Schedule J.) In practice the rate charged, subject to this maximum, depends on the type of loan and to some extent the location of the credit union. Rates charged on loans by credit unions of different types are shown on pages 18 and 19 of Schedule B. A borrower refund was made by 26 credit unions in 1960.

Main Types of Loans

47. The main purposes for which loans are made by Saskatchewan credit unions are shown in Table 6, page 24 of Schedule B. This shows that on the basis of dollar value the most important purposes for which loans are made are for home improvements 24%, machinery, trucks and repairs 22%, land payment and mortgage retirement 13%, consolidation of debts 13%, and operating expenses 5%. During 1960, 50,021 loans were made by 272 credit unions amounting to a total of $43,638,000 or $872 per loan.

Restrictions on Loans of Certain Types

48. The maximum loan that may be made to a single borrower may not exceed 8% of the paid up capital, deposits and surplus of a credit union although the local supplemental bylaws may provide for a lesser maximum. In addition, The Credit Union Act provides that no loan may be made to finance operations of a businessman who is a member if his assets before the loan is made exceed $100,000. Combined loans made by a credit union to finance operations of businessmen or of co-operative associations shall not exceed at any time 25% of combined capital and deposits of the credit union unless its own supplemental bylaws provide for a greater amount. While the 8% restriction applies on loans to individuals and co-operatives, a credit union may

by bylaw increase the amount loaned to a municipality or other public body performing a function of government provided that in no case shall the amount loaned to such borrower exceed 25% of the paid up capital and deposits. (See sections 58, 59 and 60 of The Credit Union Act - Schedule J.)

Reasons for Restrictions on Loans

49. A credit union is organized primarily as a source of credit to its individual members. Other things being equal, preference is given to the smaller borrowers as being most in need of the service. Small businessmen in rural communities, especially where there are no banks, may want to borrow in modest amounts. Where some of the members are ratepayers of a rural municipality, they may as a matter of policy be willing to see their credit union help to finance the municipality in order to keep their own savings which they have in the credit union circulating within the community. But while the credit union, because of its local orientation and control, may thus be in a position to keep its members' savings circulating within the community, a credit union is essentially a short-term and intermediate-term institution to meet the personal and production loan needs of its members as its resources and contacts with its members will permit. The limitations on loans to businessmen and institutions referred to in the preceding paragraph are, therefore, in the nature of a compromise to enable a credit union to be of some service to such local businessmen and institutions but leaving the main field of business and institutional loans to other agencies.

Secured and non-secured Loans

50. Credit unions are permitted by The Credit Union Act to make non-secured loans up to $500 on the personal character of the borrower. Where the assets of the credit union are less than $200,000, the maximum for an unsecured loan is $300. The endorsation of a co-maker is acceptable where the borrower lacks other collateral security. Shares of the borrower are the prime security

for a loan and most credit unions encourage members to leave their shares with the credit union by charging a lower rate on loans fully secured by shares than on a loan only partially secured. The same policy is followed towards credit unions by the Saskatchewan Co-operative Credit Society. In this way, savings in the form of shares tend to be more permanent form of investment with the advantage of a lower rate of interest on loans fully secured by shares than in the case of loans otherwise secured. A credit union has all the usual powers to take and realize upon security for loans to its members. Mortgage loans are limited to a percentage of the appraised or assessed value of the security prescribed in section 66 of The Credit Union Act - Schedule J.

Borrowings by a Credit Union

51. Subject to the consent of the Registrar of Credit Unions, the directors of a credit union may by resolution borrow for its purposes from any source up to an amount equivalent to 25% of its capital, surplus and deposits. Where bonds or securities of the Government of Canada or of Saskatchewan are used as collateral, the directors may borrow up to the market value of such securities without the approval of the Registrar, and they may also borrow up to 50% of the paid up value of unencumbered shares held by the credit union in the Credit Society also without the Registrar's consent. The annual meeting of the credit union on the unanimous recommendation of the directors may authorize increased borrowings up to 50% of the capital, surplus and deposits of the credit union. The object is to give the directors reasonable leeway with respect to borrowing with the approval of the members being required for borrowings where substantial amounts are involved in relationship to the resources of the credit union. Borrowing is chiefly from the Credit Society against shares of the credit union deposited therein, supplemented by assignment of book accounts where needed, and from chartered banks.

for a loan and most credit unions encourage members to leave their shares with the credit union by charging a lower rate on loans fully secured by shares than on a loan only partially secured. The same policy is followed towards credit unions by the Saskatchewan Co-operative Credit Society. In this way, savings in the form of shares tend to be more permanent forms of investment with the advantage of a lower rate of interest on loans fully secured by shares than in the case of loans otherwise secured. A credit union has all the usual powers to take and realize upon security for loans to its members. Mortgage loans are limited to a percentage of the appraised or assessed value of the security prescribed in section 65 of the Act.

Borrowings by credit union

51. Subject to the consent of the Registrar of Credit Unions, the directors of a credit union may by resolution borrow for its purposes from any source up to an amount equal to 25% of its capital, surplus and deposits. Where bonds or securities of the Government of Canada or of Saskatchewan are used as collateral, the directors may borrow up to the market value of such security with the approval of the Registrar, and they may also borrow up to 90% of the paid up value of member-owned shares held by the credit union in the Credit Society also without the Registrar's consent. The annual meeting of the credit union on the unanimous recommendation of the directors may authorize increased borrowings up to 50% of the capital, surplus and deposits of the credit union. The object is to give the directors reasonable leeway with respect to borrowing with the approval of the members being required for borrowings where substantial amounts are involved in relationship to the resources of the credit union. Borrowing is chiefly from the Credit Society against shares of the credit union deposited therein, supplemented by assignment of book accounts where needed, and from chartered banks.

Shares versus Deposits in Credit Unions

52. Credit unions stress long-term membership savings as a foundation for credit. These take the form of share capital whereas deposits (current accounts) are usually maintained for the convenience of the members. In many occupational credit unions where the members are a closely-knit group, the capital tends to consist mainly of shares with only a few deposit accounts being maintained. In groups where the tie of association is not as strong, and especially where the members live at some distance from the office of the credit union, current deposits assume more importance as a convenience for the member in the transaction of his everyday business. Withdrawals from such deposit accounts are permitted by order negotiable by endorsement in 160 credit unions, mostly of the rural community type - see paragraph 54. Shares are, however, the most permanent form of savings and are the main source of loans to members. Credit unions, therefore, pay a higher return out of surplus on shares as compensation for the use of the money for loaning purposes and as an inducement to the member to build up his more permanent savings. Interest on deposit accounts as an operating expense was paid by 47 credit unions in 1960 as compensation for the more temporary use of the members' money not required for his current needs.

Withdrawals - General

53. Shares and deposits may be withdrawn on any day that the office of the credit union is open for business. The directors may require up to 90 days' notice in case of withdrawal of shares and up to 30 days with respect to deposits. In practice, no notice is usually required as a credit union aims to keep its funds sufficiently liquid to meet all reasonable demands. Withdrawals may be made by the member at the credit union office or by mail.

Withdrawals by Order from Deposits

54. In case of credit unions with a large membership and especially in the case of organizations in rural areas, the Registrar of Credit Unions may grant permission for withdrawals from deposit account through the use of orders upon the credit union negotiable by endorsement - see section 81 of The Credit Union Act, Schedule J. This permission is granted only where the paid up share capital exceeds $100,000 or such lesser figure as may be deemed reasonable, where a reserve in cash or the equivalent of cash is maintained of 20% up to the first million dollars of shares and deposits and 15% of each subsequent million, where an auditor has been appointed and where accounting and other office methods and facilities are deemed adequate. The use of these orders is of great convenience, especially in rural districts as they permit a member to use his deposit account for the payment of business transactions without the necessity of a personal visit to the office of the credit union.

Reserves for Withdrawals by Order

55. The reason for the larger cash reserve being required than in the case of credit unions not using orders negotiable by endorsement is that withdrawals of this type may involve more numerous and larger amounts, sometimes by mail, than where the prevailing method of withdrawal is by the member who visits the office of the credit union in person and can if necessary negotiate for the withdrawal of his savings.

Withdrawals based on Savings or Authorized Credit -- No Overdrafts

56. A member can only withdraw savings to his credit in share capital or deposit account or from the proceeds of a loan from the credit union duly authorized by the credit committee or by the treasurer as permitted under The Credit Union Act. The use of overdrafts is prohibited by the Act.

Distribution of Surplus Earnings

57. The distribution of the net surplus of a credit union after the payment of all expenses, including the payment of interest on deposits,

if any, is prescribed in section 83 of The Credit Union Act - Schedule J. This section provides for allocation to a reserve fund against uncollectible loans and probable future losses of at least 20% of the annual net surplus until the amount in reserve is equal to at least 10% of the assets of the credit union from time to time. Dividends may be paid on share capital at a rate not exceeding 5% per annum, there may be an allocation for an educational fund of not more than 5%, provision may be made for a special fund to meet emergencies or for special objects although such allocation is unusual, and finally there may be a refund of loan interest paid by members. Of these methods of allocation, the appropriation to reserve is compulsory while the rest are optional but with almost every credit union paying a dividend on shares and a number providing for a refund of loan interest. The variation in dividend rates on shares and borrower refunds are shown on page 15 of Schedule B.

Reserves

58. Reserves created out of surplus earnings, including statutory reserve, Mutual Aid reserve, miscellaneous reserves and undivided surplus earnings, are shown in the combined balance sheet of Saskatchewan Credit Unions, 1960, on page 8 of Schedule B. These are deemed adequate in view of our loss experience with credit unions to date.

Liquidity

59. As of December 31, 1960, liquid assets in cash holdings and readily convertible investments of all credit unions amounted to 25.6% of the total assets of all credit unions operating in Saskatchewan - see page 9, Schedule B. This is considered adequate to meet all ordinary demands for withdrawal by members and other obligations and is more than prescribed in section 81 of The Credit Union Act which sets forth the minimum requirements for credit unions using orders negotiable by endorsement.

if any, is prescribed in section 53 of The Credit Union Act - Schedule J. This section provides for allocation to a reserve for against uncollectible loans and probable future losses of at least 20% of the annual net surplus until the amount in reserve is equal to at least 10% of the assets of the credit union from time to time. Dividends may be paid on share capital at a rate not exceeding 5% per annum, there may be an allocation for an educational fund of not more than 5%, provision may be made for a special fund to meet [illegible] gencies or for special objects although such allocation is unusual, and finally there may be a refund of loan interest paid by members. Of these methods of allocation, the appropriation to reserve is compulsory, while the rest are optional but with almost every credit union paying a dividend on shares and a number providing for a refund of loan interest. The variation in dividend rates on shares and borrower refunds is shown at page 15 of Schedule H.

53. Reserves created out of surplus earnings, including statutory reserve, Mutual Aid reserve, miscellaneous reserves and undivided surplus earnings, are shown in the combined balance sheet of Sask[illegible]

[illegible] deemed adequate in view of our loss experience with credit unions in [illegible]

5[illegible]. As of December 31, 1960, liquid assets in cash on hand and readily convertible investments of all credit unions amounted to [illegible] of the total assets of all credit unions operating in Saskatchewan (see page [illegible] of Schedule H). This is considered adequate to meet all ordinary demands for withdrawal by members and other obligations and is more than prescribed in section [illegible] of The Credit Union Act which sets forth the minimum requirements for credit unions using orders negotiable by endorsement.

The Mutual Aid (Central Reserve) Fund for Credit Unions

Mutual Aid Fund - Organization

60. In 1952 an amendment to The Credit Union Act provided for the establishment of a Mutual Aid or Central Reserve Fund for all credit unions in Saskatchewan provided the necessary number of credit unions voted in favour of the proposal. The legislation provided that if at least two-thirds of the credit unions voting were in favour, assessments on all credit unions to establish the fund and operate it would be compulsory. A vote was taken late in 1952 with approximately 80% of the credit unions voting in favour, representing about 80% of the membership of all credit unions in the Province at that time. A board to administer the fund was appointed by the Lieutenant Governor in Council early in 1953.

Mutual Aid Board

61. The fund is administered by a Mutual Aid Board of five persons appointed by the Lieutenant Governor in Council with three members being nominated by the Credit Union League, one nominated by the Saskatchewan Co-operative Credit Society, and one appointed by the Lieutenant Governor in Council without nomination. The Board which is a corporation makes annual assessments upon credit unions and administers the Mutual Aid Fund in accordance with sections 100 to 113 of The Credit Union Act - Schedule J.

Assessments to the Fund

62. The Credit Union Act provides that the Mutual Aid Board may, for the purposes of the Mutual Aid Fund, levy a yearly assessment upon each credit union of an amount not exceeding 5% of the annual net earnings. Such levy may be construed as a part of the minimum allocation of 20% of net earnings which each credit union is required to make to its own local bad debt reserve. In practice, credit unions take advantage of this provision since they consider that the Mutual Aid Fund is a part of their own reserve for contingencies.

Purposes of Mutual Aid Fund

63. The purpose of the Mutual Aid Fund is to assist credit unions in financial difficulties to maintain their solvency, to meet the demands of members for the withdrawal of their savings and to safeguard equities of members in case of threatened dissolution. The assistance may take the form of interest-free loans or loans at reduced rates, grants in aid and payments to members in lieu of the savings they may have with the credit union in the form of shares and deposits. The latest report and audited financial statement of the Mutual Aid Board is annexed hereto as Schedule L. This shows how the Mutual Aid Fund has been built up and how it has been used.

Results of Mutual Aid Fund

64. The Mutual Aid Fund has safeguarded the solvency of credit unions in Saskatchewan since its inception and has increased confidence in the movement among both the members and the public. The fact that there has been no loss of member equities in any credit union in Saskatchewan since the inception of the movement in 1937 is due in no small measure to the operations of the Mutual Aid Fund. Its maintenance is essential to the welfare of credit unions under conditions that prevail in Saskatchewan and will help to assure the future of the movement.

Services to Credit Unions Provided by Saskatchewan Co-operative Credit Society

Main Functions of Society

65. As previously mentioned in this submission, Saskatchewan credit unions, along with other co-operative organizations, organized the Saskatchewan Co-operative Credit Society as a central depository for funds not immediately required and as an agency from which they could borrow in order to meet seasonal demands for loans from their members. The Society, in turn, makes loans to member credit unions and co-operatives as they need them and invests the balance of the funds deposited with it by member organizations in Government and municipal securities of various kinds and in mort-

gage debentures issued by co-operatives. The Society functions, therefore, as a central credit union serving both credit unions and co-operatives and it is in effect an extension of the operations of 279 credit unions to make better use on a province-wide basis of the surplus funds at their disposal and, with these surplus funds as a basis, secure when necessary, a loan service from the Society. In practice, while the greater part of the funds invested in the Society comes from credit unions, the greater part of the loan business is in the form of short-term and intermediate-term loans to co-operatives, although this does not prevent the Society from meeting all the credit needs that credit unions may require. The effect of this is that the surplus funds of one credit union can be used to meet the temporary needs of another or of a co-operative organization or invested temporarily in securities which will help bring a return to the credit union which invested or deposited its surplus funds with the Society in the first place. The Society supplements the funds it receives from credit unions and co-operatives by bank borrowings.

Returns received from Society

66. The services provided by the Saskatchewan Co-operative Credit Society are described in its 21st annual report annexed hereto as Schedule F. The Chart on page 6 of this report shows that out of every dollar of net income, 59 cents is returned to member organizations with the bulk of this going to credit unions as dividends, interest on deposits and borrower refunds. It will be observed that the Society acts as a central clearing agency for credit unions using negotiable orders, this service having been established in consultation with the chartered banks - see Schedule M annexed hereto. The Society follows the practice of credit unions in lending money at a lower rate to credit unions whose loans are fully secured by shares, thus encouraging the credit union to leave intact its share investment in the Society. Shares in the Society held by credit unions and

co-operatives may be withdrawn when they deem such withdrawal necessary.

Sources of Income for Society

67. The Chart on page 6 of Schedule F also shows that out of every dollar of the Society's income, 62 cents was received from loans to member credit unions and co-operatives, 30 cents on other investments, including bonds, etc., 4 cents for clearing and service charges and 4 cents from miscellaneous sources. This shows that the Society derives its income primarily from loans to members.

Significance of Society

68. Just as a credit union accepts savings from and makes loans to its members only and in behalf of its members invests such portion of their savings as are not temporarily required for loaning purposes, so the Society accepts savings from its member credit unions and other members, lends money to members only and invests for them surplus funds not required temporarily for loaning purposes. Rather than sell investments from time to time in order to meet all credit needs of its members from funds they have deposited with it, the Society borrows from the chartered banks. With the allocation of surplus earnings amongst member organizations, the Society provides a service at as close to actual cost as possible.

Services Provided for Credit Unions by Co-operative Trust Company

Reasons for Membership in Company

69. As mentioned earlier in this submission, the Co-operative Trust Company is a federation of credit unions and co-operative organizations. Insofar as credit unions are concerned, the main reasons for membership in the Company include (a) collaboration with the Company in meeting some of the long-term credit needs of credit union members with the proceeds of such loans being provided by an organization whose structure and method of operation makes

possible a long-term loan service, (b) the maintenance of a special co-operative organization which is in a position to provide a trust company service desired by members of credit unions, and (c) an additional medium for the investment of surplus funds not immediately required by credit unions.

Collaboration with Company in Long-term Loan Field and Other Services

70. Since the loaning activity of the Trust Company is primarily in the long-term mortgage field, it follows that the funds it requires for its lending operations come chiefly from share capital and the sale of long-term securities. For this reason, investments of surplus funds by credit unions in the Trust Company tend to be less than in the Saskatchewan Co-operative Credit Society which provides a short-term or intermediate-term loaning service to its members and relies more on withdrawable shares and deposits as its source of funds. Credit unions nevertheless have a strong interest in the Trust Company not only for the special services it provides to members of credit unions in the preparation of wills and the management of estates and to some extent as a source for long-term investment but also because the Company's services make it possible for credit unions to assist in meeting a limited demand for long-term loans from their members by appraising applications therefor and if necessary recommending them for the consideration of the Company.

Relationship of Credit Unions and Allied Organizations to the Financial System

Introduction

71. In this submission, an attempt has been made to outline the history, objects and operations of credit unions and to describe the main objects and services of organizations formed and controlled by credit unions, wholly or in part. In the following paragraphs, some observations and opinions are offered regarding the significance of credit unions in our financial system and why they may be expected to and why they should continue to develop.

An Alternative Means of Savings and Credit

72. Reference has already been made to the functions of a credit union in creating a pool of savings for its members out of which loans are made to members only at moderate rates of interest. It is submitted that a credit union offers an alternative medium for the building up of savings and providing credit to people who may decide that some of their needs can be met more effectively in this way than through services available from other agencies. The people interested have the choice of banding themselves together to provide these services for <u>their own group only within the locality and the province in which they live</u> or, as individuals, making use of the services of other agencies. Most credit union members do both.

Credit Unions bring forth more Savings

73. It is submitted that a credit union, because of the close relationship between the member and the organization which he owns and helps to control, encourages the member to build up more savings on his own account than would be the case if he relied exclusively on the facilities of savings and credit agencies with which he has not the same personal contact and over which he has no control. The member knows that his savings will be the first foundation for his personal credit in case of need and that his credit needs will also receive consideration by elected credit union officials who, in most instances, know him personally, have special knowledge of his needs because of the tie of association, occupation or residence as a basis for membership and rely on his loyalty to the group in repaying any loan. This is not to say that the thousands of members in our credit unions could not have accumulated savings through other agencies during the period credit unions have been in operation but it is emphatically submitted that the relationships between a member

and his credit union have been the means of building up much greater savings than would otherwise have been the case and that this helps to explain the rapid growth of savings through credit unions.

Significance of Local Control of Savings and Credit

74. It is also submitted that since the savings and credit policies of a credit union are controlled by its members residing in, for example, a certain rural area or within a well-defined occupational group, the services of a credit union can, subject to the resources at its disposal, be more closely adapted to the needs of the members as compared with the services offered by an organization controlled from outside the area or from outside the Province. It is further suggested that policies instituted by the members of a local group to meet their own credit needs with funds based on their own savings help the members of such a group to survive the results of national contractions or other variations in the credit picture without in any way stimulating the use of credit which might make the overall financial situation more difficult.

Counselling for Members

75. The officials of a credit union organized to meet the needs of the individual member try to appraise his credit requirements from the standpoint of what is actually in his best interests. "Counselling" by a manager of a credit union or by a credit committee may mean not only financial rehabilitation through consolidation of debts, but also when necessary, advice against asking for as much credit as the member may think he requires. This kind of an attitude tends to guard against inflated demands for credit within the credit union membership. This is not to say that other credit agencies may not counsel against too much credit but it is submitted that credit unions, being service organizations for their own members, have a greater tendency to do this than agencies that are in the field of selling credit to the public.

Credit at Lower Cost

76. Credit unions also provide opportunities for securing personal credit at a lower rate than is the case with many other credit agencies in the personal loan field. The relationship between a member and the credit union of which he is part owner and helps to control, obviously reduces "the acquisition cost" compared with some other kinds of credit agencies since he shouldn't have to be sold on using his own business. The risks faced by other agencies are greater due to the difficulty of appraising such factors in credit as the character of the individual as they don't, as a rule, have the close contact with customers as a credit union has with its member borrowers. There is also the loyalty of the member to his fellow-members in a credit union which helps to reduce defaults or write-offs. All of these make it possible for credit unions to charge a lower rate for loans as compared with many other agencies and this is supplemented by a policy of refunding earnings either as a moderate reward for savings in the form of dividends on shares and sometimes by the refunding of loan interest. The fact that credit unions have written off only 16 cents on every hundred dollars they have loaned in Saskatchewan since 1937 is not only an indication of the loyalty of members to their own credit organizations but also helps to explain the ability of credit unions to furnish credit at moderate cost.

Advantage in Personal Credit Field

77. Credit unions are in a better position in some respects than banks in providing a personal loan service. Here again the more direct sense of ownership of the credit agency is a factor in the credit unions' favour when appraising personal credit needs and ensuring repayment. But while credit unions provide a definite alternative to the more expensive loan agencies in the personal credit field, they provide a supplementary service to that of the

chartered banks. The latter will continue to finance the business community and furnish the larger short-term production loans. Credit unions are limited in this field because they are different from the banks in the local nature of their savings, operations and control, and do not have the facilities to service the business world in its larger aspects.

Social Significance

78. The social effects of credit unions should not be overlooked when evaluating their place in our economy. The influence of credit unions on people who, as a result of membership therein, are taught to solve many of their financial problems through self-help in association with their fellows is important to the maintenance of a free society such as ours. Added to this is the training they receive in the management of finances. The fact that Saskatchewan credit unions were served in 1961 by 3,975 directors and committee men, elected to look after the affairs of the members, is an indication of the extent of the training received by people in the management of finances. In addition, the knowledge that in credit unions and in organizations serving them control is vested in the hands of those who use the credit -- a distinctive feature of credit union practice -- encourages a healthier and more responsible appreciation of the place and management of credit which tends to be reflected also in the attitude of the members towards other facets of our economy. The character building and other social effects of credit unions deserve careful consideration in the evaluation of any results of credit unions in our financial system.

Effects of Democratic Control

79. Desjardins, the pioneer leader of the credit union (caisse populaire) movement in Quebec, once said: "The peoples welfare is best ensured by institutions administered by the people themselves."

Many students of our democratic scene are concerned about what seems to be a growing apathy on the part of many people towards their responsibilities in a society which they tend to take for granted. The means that credit unions provide for training their members in the democratic administration of institutions so desirable for their welfare as those giving them control over savings and credit should not be overlooked in any evaluation of the place of the credit union movement in our midst.

General Importance and Significance

80. The Credit Union League of Saskatchewan, therefore, takes the position that credit unions have an important part to play in promoting thrift and providing credit at reasonable rates and should, therefore, continue to receive support and encouragement to develop the way they are doing now. The League further submits that inasmuch as credit unions are local in character and help to strengthen the communities in which they live by keeping the savings of the people as much as possible at work within these communities, they are a definite asset in whatever locality and group they operate. They are a definite alternative to higher cost loaning agencies leaving the people the freedom to decide which to use, subject to the limitations of the close tie of association so desirable to successful credit union operation. The same usefulness in the provincial field characterizes also the place of the Saskatchewan Co-operative Credit Society whose capital comes largely from credit unions, is withdrawable by them and where the loaning operations of the Society are to credit unions and co-operatives operating within the Province. Credit unions also help with some facets of long-term agricultural credit through participation in the Co-operative Trust Company. These institutions being under the control of those who use them have a special contribution to make as a supplement to our financial system and their growing membership and resources are evidence of this.

Many students of our democratic institutions are concerned about what seems to be a growing apathy on the part of many people towards their responsibilities in a society which they tend to take for granted. The means that credit unions provide for training their members in the democratic administration of institutions so desirable for their welfare as those giving them control over savings and credit should not be overlooked in any evaluation of the place of the credit union movement in our midst.

General Importance and Significance

56. The Credit Union League of Saskatchewan, therefore, takes the position that credit unions have an important part to play in promoting thrift and providing credit at reasonable rates and should therefore continue to receive support and encouragement to develop the way they are doing [illegible]. The League further submits that inasmuch as credit unions are local in character and help to strengthen the communities in which they live by keeping the savings of the people as much as possible at work within these communities, they are a definite asset in whatever locality or region they operate. They are a definite alternative to higher cost lending agencies by giving the people the freedom to decide where to use, subject to the limitations of the elected officers, so favorable to success of credit union operation. The same usefulness in the province of this characterizes also the place of the Saskatchewan Co-operative Credit Society whose capital comes largely from credit unions, is withdrawable by them and where the leading operations of the Society are to credit unions and co-operatives operating within the Province. Credit unions also help with some facets of long-term agricultural credit through participation in the Co-operative Trust Company. These institutions being under the control of those who use them have a special contribution to make as a supplement to our financial system and their growing membership and resources are evidence of this.

Legislation

Should Remain under Provincial Jurisdiction

81. Legislation governing credit unions in Saskatchewan is adequate and the administration thereof is excellent but the legislation may need amendment from time to time as the credit union movement continues to develop. The Credit Union League takes the position that credit unions should continue to remain under Provincial legislation and control.

Conclusion

82. In this submission, an attempt has been made to describe the operations of credit unions, their financial significance from a local and provincial point of view and how important their continued progress will be to the people of this Province. It is hoped the information given and the views expressed in this submission will be helpful to the Commission in their important task.

INDEX OF CONTENTS

INDEX OF CONTENTS (Cont.)

INDEX OF CONTENTS (Cont.)

LIST OF SCHEDULES

Schedule A	History, Philosophy and Development of the Credit Union Movement in Saskatchewan.
Schedule B	Saskatchewan Credit Unions 1960. (A Supplement to the Annual Report of the Department of Co-operation and Co-operative Development)
Schedule C	Progress Report - Saskatchewan Credit Unions.
Schedule D - 1	Constitution and Bylaws of the Credit Union League of Saskatchewan.
Schedule D - 2	Credit Union Advanced Management Course.
Schedule D - 3	Courses in Management and Officer Training.
Schedule D - 4	Picture Chart "Saskatchewan Credit Union Movement".
Schedule D - 5	Annual Report of the Credit Union League of Saskatchewan.
Schedule E	Special Act of Incorporation of Saskatchewan Co-operative Credit Society.
Schedule F	Annual Report of Saskatchewan Co-operative Credit Society.
Schedule G	Special Act of Incorporation of Co-operative Trust Company.
Schedule H	The Family Farm Credit Act, 1959.
Schedule I	Annual Report of Co-operative Trust Company.
Schedule J	The Credit Union Act, 1956.
Schedule J - 1	Standard Bylaws Governing all Savings and Credit Unions.
Schedule K	Annual Return Form for Credit Unions.
Schedule L	Annual Report of Credit Union Mutual Aid Board.
Schedule M	Clearing Agreement between Saskatchewan Co-operative Credit Society and Chartered Banks.
